

**SASKENERGY INCORPORATED
AND
SUBSIDIARIES**

FINANCIAL STATEMENTS

December 31, 2004

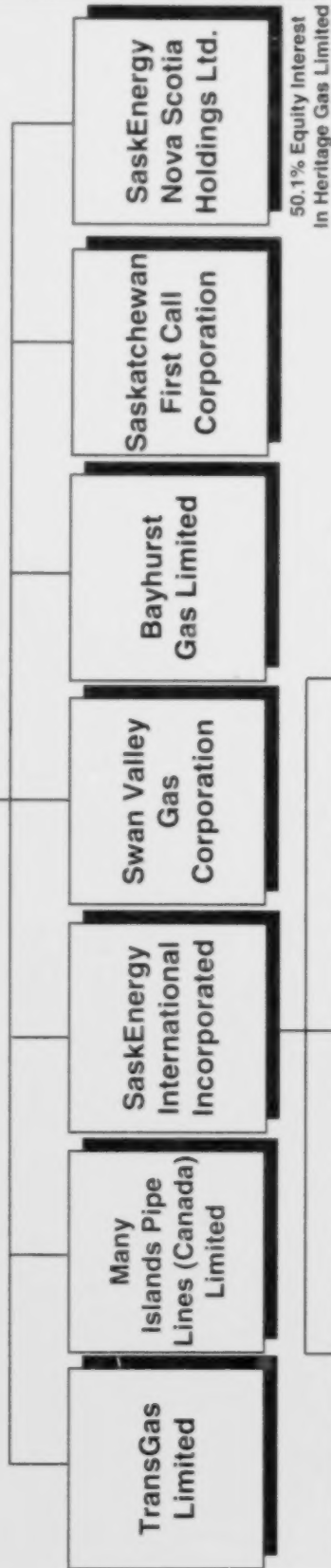


SASKENERGY INCORPORATED AND SUBSIDIARIES
FINANCIAL STATEMENTS
INDEX

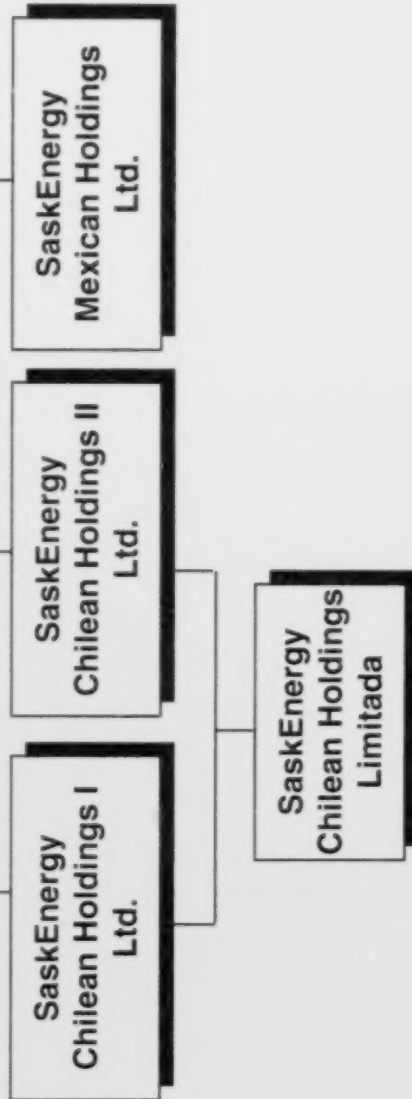
1. SaskEnergy Incorporated - Consolidated
2. SaskEnergy Incorporated – Distribution Division
3. SaskEnergy Incorporated - Holdings Division
4. TransGas Limited
5. Many Islands Pipe Lines (Canada) Limited
6. Bayhurst Gas Limited
7. Swan Valley Gas Corporation
8. Saskatchewan First Call Corporation
9. SaskEnergy International Incorporated
10. SaskEnergy Chilean Holdings I Ltd.
11. SaskEnergy Chilean Holdings II Ltd.
12. SaskEnergy Chilean Holdings Limitada
13. SaskEnergy Mexican Holdings Ltd.
14. SaskEnergy Nova Scotia Holdings Ltd.
15. Heritage Gas Limited

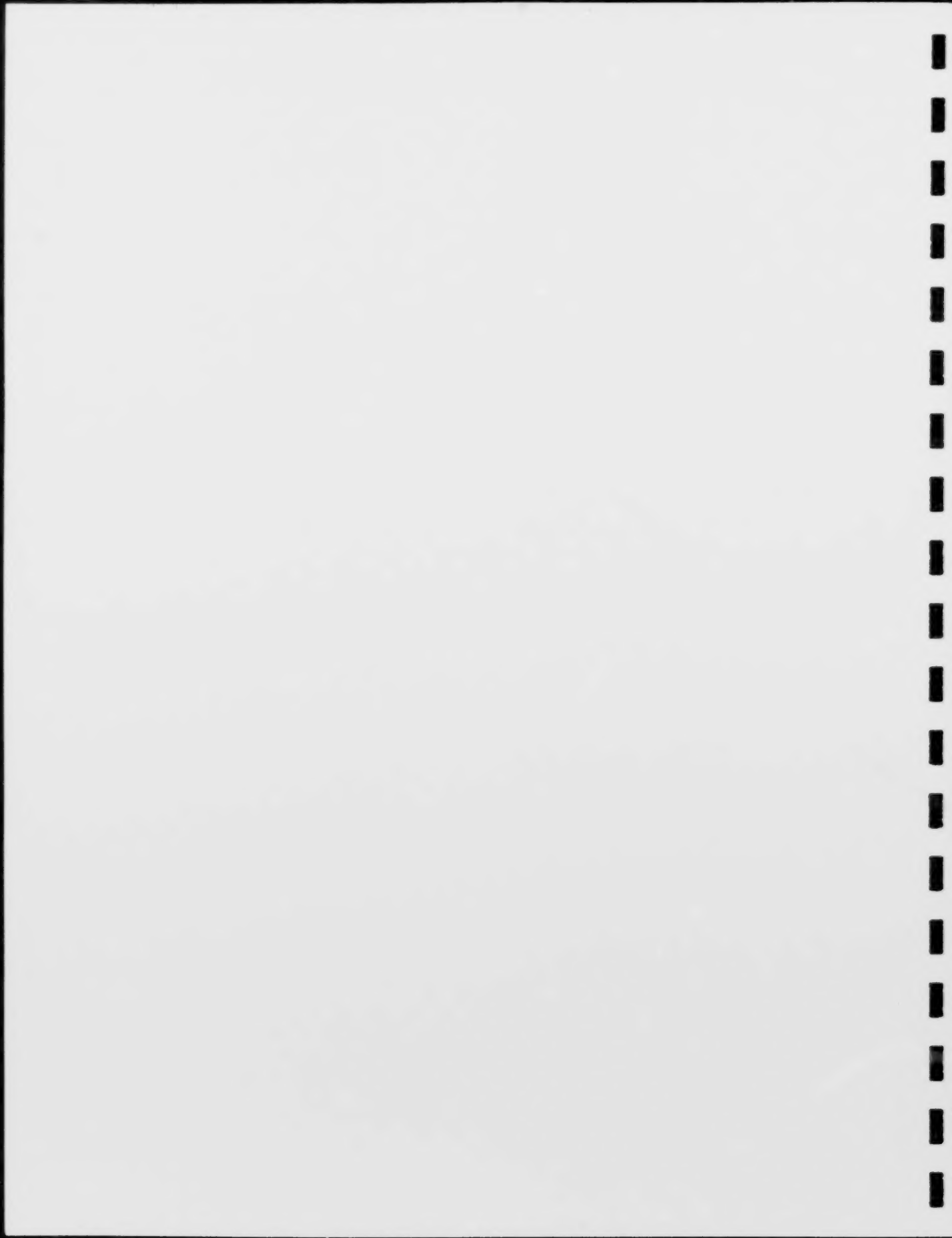


SaskEnergy Incorporated
Consolidated
(Distribution Division) (Holdings Division)



50.1% Equity Interest
In Heritage Gas Limited





SASKENERGY INCORPORATED

***CONSOLIDATED
FINANCIAL STATEMENTS***

December 31, 2004

Auditors' Report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the consolidated statement of financial position of SaskEnergy Incorporated as at December 31, 2004 and the consolidated statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
February 8, 2005

SASKENERGY INCORPORATED

Consolidated Statement of Financial Position

As at December 31
(thousands of dollars)

	2004	2003 (Restated)
Assets		
Current assets		
Cash	\$ 3,637	\$ -
Accounts receivable	173,726	144,524
Natural gas in storage held for resale	95,966	82,102
Inventories of supplies	6,843	6,458
	<u>280,172</u>	<u>233,084</u>
Property, plant and equipment (Note 5)	949,461	941,569
Investments and other assets (Note 6)	31,755	34,789
Natural gas in storage held for resale and operations	25,053	25,766
	<u>\$ 1,286,441</u>	<u>\$ 1,235,208</u>
Liabilities and Province's Equity		
Current liabilities		
Bank indebtedness	\$ -	\$ 1,295
Short-term debt (Note 7)	78,900	110,000
Accounts payable	159,422	141,436
Dividend payable	26,500	10,560
Current portion of long-term debt (Note 7)	106,235	34,997
	<u>371,057</u>	<u>298,288</u>
Long-term debt (Note 7)	569,348	627,884
	<u>940,405</u>	<u>926,172</u>
Province of Saskatchewan's equity		
Equity advances (Note 8)	71,531	71,531
Retained earnings (Note 3)	276,431	238,589
Foreign currency translation adjustment (Note 6)	(1,926)	(1,084)
	<u>346,036</u>	<u>309,036</u>
	<u>\$ 1,286,441</u>	<u>\$ 1,235,208</u>

Commitments and contingencies (Note 9)

(See accompanying notes)

On behalf of the Board:



Director



Director

SASKENERGY INCORPORATED**Consolidated Statement of Earnings and Retained Earnings**

Years ended December 31

(thousands of dollars)

	2004	2003 (Restated)
Revenue		
Delivery	\$ 162,246	\$ 164,825
Transportation and storage	88,436	80,983
Net sales from gas marketing (Note 10)	36,535	36,508
Revenue collected for municipalities (Note 11)	24,270	24,432
Other	5,932	6,115
	<u>317,419</u>	<u>312,863</u>
Expenses		
Operating and maintenance	117,743	113,327
Interest (Note 7)	49,462	52,075
Amortization (Note 5)	49,608	49,019
Payment to municipalities (Note 11)	24,270	24,432
Saskatchewan taxes (Note 12)	6,256	5,779
	<u>247,339</u>	<u>244,632</u>
Net earnings from operations before the following	<u>70,080</u>	<u>68,231</u>
Commodity revenue	387,042	374,658
Cost of gas sold	<u>349,280</u>	<u>401,985</u>
Gain (loss) from commodity sales (Note 4)	<u>37,762</u>	<u>(27,327)</u>
Net earnings	<u>107,842</u>	<u>40,904</u>
Retained earnings, beginning of year		
As previously reported	237,738	223,373
Change in accounting policy (Note 3)	<u>851</u>	<u>972</u>
As restated	<u>238,589</u>	<u>224,345</u>
	<u>346,431</u>	<u>265,249</u>
Dividends	<u>(70,000)</u>	<u>(26,660)</u>
Retained earnings, end of year	<u>\$ 276,431</u>	<u>\$ 238,589</u>

(See accompanying notes)

SASKENERGY INCORPORATED

Consolidated Statement of Cash Flows

Years ended December 31

(thousands of dollars)

	2004	2003 (Restated)
Operating Activities		
Net earnings	\$ 107,842	\$ 40,904
Add (deduct) items not requiring an outlay of cash		
Amortization	49,608	49,019
Other non-cash items	(1,141)	1,281
	<u>156,309</u>	<u>91,204</u>
Net change in non-cash working capital related to operations (Note 13)	<u>(25,465)</u>	<u>17,769</u>
Cash provided by operating activities	<u>130,844</u>	<u>108,973</u>
Investing Activities		
Additions to property, plant, and equipment	(67,825)	(79,132)
Additions to investments and other assets	(937)	(6,685)
Customer capital contributions received	10,325	9,723
Decrease in natural gas in storage (non-current)	713	2,574
Cash used in investing activities	<u>(57,724)</u>	<u>(73,520)</u>
Financing Activities		
Decrease in short-term debt	(31,100)	(63,200)
Sinking fund instalments	(4,540)	(4,540)
Increase (decrease) in deferred charges	1,969	(279)
Proceeds from long-term debt	50,000	50,000
Repayments of long-term debt	(30,457)	-
Dividends paid	<u>(54,060)</u>	<u>(20,560)</u>
Cash used in financing activities	<u>(68,188)</u>	<u>(38,579)</u>
Increase (decrease) in cash during the year	4,932	(3,126)
Cash position, beginning of year	<u>(1,295)</u>	<u>1,831</u>
Cash position, end of year	<u>\$ 3,637</u>	<u>\$ (1,295)</u>

Cash position consists of cash less bank indebtedness

(See accompanying notes)

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
December 31, 2004

1. Status of the Corporation

SaskEnergy Incorporated (SaskEnergy) is a Saskatchewan provincial Crown corporation operating under authority of *The SaskEnergy Act*. SaskEnergy's primary business is the transportation, distribution and storage of natural gas in Saskatchewan.

By virtue of *The Crown Corporations Act, 1993*, SaskEnergy has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a provincial Crown corporation. Accordingly, the financial results of SaskEnergy are included in the consolidated financial statements of CIC.

As a provincial Crown corporation, SaskEnergy and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. The following accounting policies are considered to be significant:

a. Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries, Bayhurst Gas Limited, Many Islands Pipe Lines (Canada) Limited, Saskatchewan First Call Corporation, SaskEnergy International Incorporated, SaskEnergy Chilean Holdings I Ltd., SaskEnergy Chilean Holdings II Ltd., SaskEnergy Mexican Holdings Ltd., SaskEnergy Nova Scotia Holdings Ltd., Swan Valley Gas Corporation, and TransGas Limited. The accounts also include the Corporation's 100 per cent ownership interest in SaskEnergy Chilean Holdings Limitada, a Chilean limited partnership and the Corporation's 50.1 per cent proportionate share of the accounts of Heritage Gas Limited. Separate audited financial statements are prepared for each of these entities.

b. Natural gas in storage

i. Natural gas in storage held for resale

Natural gas in storage held for resale (both current and non-current) is stated at lower of cost and net realizable value. Natural gas held for resale removed from storage is accounted for on an average cost basis. Natural gas in storage held for resale classified as a current asset is the estimated amount of natural gas in storage to be sold in 2005 with the remainder classified as non-current.

ii. Natural gas in storage held for operations

Natural gas in storage held for operations is stated at cost. Natural gas in storage held for operations, classified as a non-current asset, is located within the Corporation's various underground natural gas storage facilities and is required for the ongoing operation of the storage facilities.

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
December 31, 2004

2. Summary of Significant Accounting Policies (continued)

c. Inventories of supplies

Inventories of supplies consist primarily of pipe and general stock for construction and maintenance and are recorded at the lower of average cost or replacement cost.

d. Property, plant and equipment

Property, plant and equipment is stated at cost and includes all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment, is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in earnings for the current period.

Other asset retirements are recorded by reducing the account by the cost of the asset and charging this amount, net of proceeds received, to accumulated amortization.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows: (in per cent)

Transmission and storage	2.5 to 2.6
Distribution	2.5 to 3.5
Gathering, treatment and compression	2.5 to 3.5
Vehicles, equipment and other	2.5 to 50.0

Customer capital contributions relate to construction of new service connections. These contributions from customers are amortized on a straight-line basis over the estimated service life of the related asset.

e. Investments

The Corporation accounts for its investments in Gas Sur S.A. and Igasamex USA Ltd. using the equity method.

f. Asset retirement obligation

In accordance with the new Canadian Institute of Chartered Accountants accounting standard for asset retirement obligations, the Corporation now records the costs associated with the future decommissioning of certain natural gas storage facilities. When a reasonable estimate is known, the fair value of these future costs is determined based on the period of decommissioning and on reclamation standards that meet or exceed regulatory requirements. This estimate is recorded as part of the related asset along with a related obligation.

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
December 31, 2004

2. Summary of Significant Accounting Policies (continued)

Annually until decommissioning, the asset is depreciated over the estimated useful life of the related asset, and the obligation is increased using an interest-rate method and risk-free rate of return. In the year of decommissioning, the asset will be fully depreciated and the obligation will have increased to an amount equal to the estimated cost of decommissioning.

Due to the long-term nature of the assumptions made in the cost estimates, there could be a material adjustment to earnings in future reporting periods. Therefore, revisions will be made periodically to reflect more accurate estimates.

g. Foreign currency translation adjustment

The Corporation's foreign investments are self-sustaining, and the financial statements are translated from the functional currency into Canadian dollars using the current rate method. Translation adjustments resulting from changes in the exchange rate between the functional currency and the Canadian dollar are reflected in the foreign currency translation adjustment in the Province of Saskatchewan's Equity.

h. Revenue recognition

Delivery and commodity revenue is recognized when natural gas is delivered to customers. An estimate of gas delivered, but not billed as of December 31, is included in revenue.

Revenue is recognized when transportation, transportation-related services and storage are provided to customers. An estimate of transportation, storage and related services rendered, but not billed as of December 31, is included in revenue.

For natural gas purchased for resale, commodity revenue is recognized in the financial statements upon completion of the delivery of natural gas to the customer.

Royalty revenue, included in other revenue, is recognized when natural gas is sold from wells subject to royalty agreements. Royalty revenue, accounts receivable and accrued revenue are subject to measurement uncertainty. These amounts are based on the Corporation's best information and judgment.

i. Cost of gas sold

The cost of gas sold includes the cost of purchasing natural gas on the open market, net hedging settlements, transportation, direct operating costs related to supply acquisition, and natural gas inventory carrying costs.

j. Competitive gas sales

Where the Corporation purchases natural gas in the open market at a fixed purchase price and simultaneously enters into agreements to sell this natural gas at a fixed selling price, the gain or loss is recorded at the time the transaction is settled.

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
December 31, 2004

2. Summary of Significant Accounting Policies (continued)

In addition, the Corporation may enter into contracts that require either the physical delivery (sale) or receipt (purchase) of natural gas in a future period. Contracts may be structured so that the settlement price is determined in the future at the time of delivery or receipt. Changes in the value of the contract due to a change in market prices up to the date of settlement are recorded as gains or losses in the period of change.

k. Derivative instruments

The Corporation uses various derivative instruments to hedge its operating exposures to fluctuations in foreign currency exchange rates, interest rates and the price of natural gas. A Corporate Derivatives Policy and specific hedging strategies establish the guidelines within which such instruments may be used. These policies require that SaskEnergy use derivative instruments only to manage risks associated with transactions undertaken in the normal course of business.

Hedge accounting is used when there is a high degree of correlation between price movements in the derivative instrument and the item designated as being hedged. Gains and losses are recognized in the same period as the hedged item is settled and are recorded in the statement of earnings. If correlation ceases, hedge accounting is terminated and future changes in the market value of the derivative instruments are recognized as gains or losses in the period of change.

i. Natural gas price risk management

The Corporation may hedge the purchase price and sale price of natural gas. The purchase or sale price of the natural gas may be fixed within the contract, or referenced to a floating index price. When the price is referenced to a floating index price, derivative instruments may be used as a hedge to fix the settlement amount. The types of instruments SaskEnergy uses to effect these hedges include natural gas price swaps, options, and swaptions traded on the over-the-counter market. In addition, SaskEnergy may use futures contracts and options on futures contracts traded on the New York Mercantile Exchange. The Corporation may sell options to generate premium revenue, which is used to offset the cost to purchase call options.

Derivative instruments that do not qualify for hedge accounting are recorded at fair value on a gross basis in the statement of financial position in accounts receivable or accounts payable as applicable. Gains and losses resulting from changes in fair value are recorded in the statement of earnings in the cost of gas.

ii. Foreign currency exchange and interest rate risk management

The Corporation uses instruments to hedge the interest rate on anticipated borrowing requirements and the foreign currency exchange rate on foreign currency denominated transactions. For the purpose of hedging interest rates, the Corporation may use forward rate agreements, options, and interest rate swaps. For the purpose of hedging the exchange rate on transactions denominated in foreign currency, SaskEnergy may use currency forwards and currency options.

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
December 31, 2004

2. Summary of Significant Accounting Policies (continued)

l. Employees' future benefits

The Corporation provides pension plans for all eligible employees, including a defined contribution pension plan and a defined benefit pension plan. The defined contribution pension plan is governed by *The Public Employees Pension Plan Act and Regulations*. The defined benefit pension plan is governed by *The Superannuation (Supplementary Provisions) Act and Regulations*, as well as *The Power Corporation Superannuation Act*.

Under both plans the Corporation's obligations are limited to making regular payments to the plans for current services. When made, these contributions are charged to expenses.

The cost of future retirement allowance benefits earned by employees is actuarially determined using the projected benefit method and management's best estimates. Past service costs are amortized on a straight-line basis over the estimated average remaining service period of active employees.

m. Deferred financing charges

Included in deferred financing charges are issue costs, discounts and premiums resulting from the issue of long-term debt, and costs of terminating delayed start interest rate swaps relating to financing of debt. These deferred financing charges are amortized as part of interest expense over the term of the related debt on a straight-line basis.

3. Changes in Accounting Policies

a. Asset retirement obligations

Until December 31, 2003, the Corporation recognized its responsibility for the estimated future costs associated with the permanent decommissioning of the Corporation's property, plant and equipment in accordance with the existing standards. The estimated cost of retiring these assets was being amortized on a straight-line basis over the expected useful life of the related assets. As at December 31, 2003, the Corporation had recorded a total provision of \$1,950 thousand for the future decommissioning of certain natural gas storage fields.

Effective January 1, 2004 the Corporation adopted the new Canadian Institute of Chartered Accountants accounting standard for asset retirement obligations which was required to be applied retroactively. The decommissioning costs referred to above are now recognized in accordance with this new standard. The Corporation is required to record this accounting change retroactively with a restatement of prior periods to show what the effect would have been if the new policy had been followed. The impact of the accounting policy change was a \$121 thousand decrease in net earnings for 2003.

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
December 31, 2004

3. Changes in Accounting Policies (continued)

The impact of this accounting change is as follows:

<u>Year ended December 31</u>	<u>2003</u>
	<u>(thousands)</u>
Amortization	\$ 260
Operating and maintenance expense	(139)
Net earnings	(121)
Property, plant and equipment, net	1,302
Accounts payable	451
Retained earnings, beginning of period	972
Retained earnings, end of period	851

b. Hedge accounting

Effective, January 1, 2004, the Corporation commenced application of the new Canadian Institute of Chartered Accountants Accounting Guideline 13. The guideline requires identification, designation, documentation and effectiveness of hedging relationships be established at the inception of each hedge in order to apply hedge accounting. Hedge accounting is used when there is a high degree of correlation between price movements in the derivative financial instrument and the item designated as being hedged. Gains and losses are recognized in the same period as the hedged item is settled and are recorded in the statement of earnings and retained earnings. If correlation ceases, hedge accounting is terminated and future changes in the market value of the derivative instruments are recognized as gains or losses in the period of change. For those derivative instruments that existed at January 1, 2004, there was no material impact on these financial statements as a result of the adoption of Accounting Guideline 13. For those derivative instruments entered into during 2004 that did not qualify for hedge accounting under Accounting Guideline 13, a mark-to-market gain of \$11,321 thousand was recognized in income. The mark-to-market gain relates to unexpired derivative instruments for the period January 1, 2005 to October 31, 2005.

4. Saskatchewan Rate Review Panel

a. Saskatchewan rate review panel

During 2000, the Saskatchewan Rate Review Panel was established by Minister's Order. The Panel was established to conduct a review of the Corporation's request for a change in rates charged for natural gas commodity sales and delivery service. The review of proposed rate changes considers the interests of the consumer, the Corporation and the public.

b. Gas cost variance account

For rate setting purposes, SaskEnergy's approved selling price for natural gas is based on the principle that there is neither a profit nor a loss on natural gas sold to customers. Therefore, the Corporation established a Gas Cost Variance Account (GCVA) to accumulate differences between commodity revenue and cost of gas sold. Subject to approval of the Government of Saskatchewan, balances accumulated in the GCVA are either recovered from or refunded to customers through future rates.

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
December 31, 2004

4. Saskatchewan Rate Review Panel (continued)

The GCVA is required by Cabinet to be audited annually by the Provincial Auditor. The Provincial Auditor's audit report on the GCVA is provided to the Saskatchewan Rate Review Panel.

The \$37,762 thousand gain from commodity sales includes \$26,441 thousand from natural gas sales to consumers plus an \$11,321 thousand mark-to-market gain on unexpired derivative instruments that do not qualify for hedge accounting. The mark-to-market gain relates to unexpired derivative instruments for the period January 1, 2005 to October 31, 2005.

5. Property, Plant and Equipment

	2004			2003		
	(thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Transmission and storage	\$ 607,993	\$ 173,419	\$ 434,574	\$ 591,079	\$ 157,804	\$ 433,275
Distribution	609,371	173,770	435,601	588,076	157,801	430,275
Gathering, treatment and compression	152,648	60,448	92,200	151,993	55,199	96,794
Vehicles, equipment and other	162,983	90,908	72,075	145,427	78,224	67,203
Franchise acquisition costs	1,668	67	1,601	1,668	-	1,668
Royalty interest	6,509	6,509	-	6,509	6,509	-
Construction in progress	31,285	-	31,285	23,298	-	23,298
	<u>\$ 1,572,457</u>	<u>\$ 505,121</u>	<u>1,067,336</u>	<u>\$ 1,508,050</u>	<u>\$ 455,537</u>	<u>1,052,513</u>
Less:						
Unamortized customer capital contributions			117,875			110,944
			<u>\$ 949,461</u>			<u>\$ 941,569</u>

Property, plant and equipment includes \$9,048 thousand (2003 - \$4,565 thousand) which represents the Corporation's 50.1 per cent proportionate interest in the assets of Heritage Gas Limited.

Franchise acquisition costs relate to the costs required to acquire the franchise distribution of natural gas in the Province of Nova Scotia in 2003.

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
December 31, 2004

5. Property, Plant and Equipment (continued)

a. Customer capital contributions

Customer capital contributions are required to be paid by customers to SaskEnergy to aid in construction of certain customer-specific facilities in accordance with established business policies.

	<u>2004</u>	<u>2003</u>
	(thousands)	(thousands)
Balance, beginning of year	\$ 110,944	\$ 104,087
Contributions received	10,325	9,723
Contributions amortized	<u>(3,394)</u>	<u>(2,866)</u>
Balance, end of year	<u>\$ 117,875</u>	<u>\$ 110,944</u>

b. Amortization

	<u>2004</u>	<u>2003</u>
	(thousands)	(thousands)
Amortization of property, plant and equipment	\$ 53,002	\$ 51,885
Amortization of customer capital contributions	<u>(3,394)</u>	<u>(2,866)</u>
	<u>\$ 49,608</u>	<u>\$ 49,019</u>

The composite rate of amortization (excluding the effect of customer capital contributions amortization) was 3.44 per cent during 2004 (3.50 per cent during 2003).

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
December 31, 2004

6. Investments and Other Assets

Investments and other assets are as follows:

	2004		2003	
	Amount (thousands)	Per cent Ownership	Amount (thousands)	Per cent Ownership
a. Equity investments				
i. Gas Sur S.A.	\$ 13,511	30.0	\$ 13,214	30.0
ii. Igasamex USA Ltd.	9,926	40.1	10,554	40.1
	<u>23,437</u>		<u>23,768</u>	
b. Other receivables	<u>1,059</u>		<u>122</u>	
c. Deferred charges				
Unamortized deferred financing costs	4,076		7,080	
Unamortized past service costs	3,183		3,819	
	<u>7,259</u>		<u>10,899</u>	
	<u>\$ 31,755</u>		<u>\$ 34,789</u>	

Equity investments:

i. Gas Sur S.A.

The Corporation invested \$13,784 thousand to purchase a 30 per cent equity interest in Gas Sur S.A., a Chilean natural gas distribution company.

The Corporation's share of the foreign currency translation adjustment for 2004 resulted in an \$84 thousand reduction in the balance of the investment in Gas Sur S.A. (2003 - \$66 thousand increase). The Corporation's 30 per cent share of Gas Sur S.A.'s 2004 net earnings was \$381 thousand (2003 - \$118 thousand).

The cost of the investment exceeds the Corporation's underlying share of the net book value of Gas Sur S.A. by approximately \$5,100 thousand (2003 - \$5,100 thousand).

ii. Igasamex USA Ltd.

The Corporation invested \$10,880 thousand to purchase a 40.1 per cent equity interest in Igasamex USA Ltd., a limited liability partnership registered in the United States. Igasamex USA Ltd. owns a 100 per cent voting interest in Integrated Gas Services de Mexico, S. de R.L. de C.V., a corporation that provides natural gas transmission services to Mexico's industrial sector.

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
December 31, 2004

6. Investments and Other Assets (continued)

The Corporation's share of the foreign currency translation adjustment related to the investment in Igasamex for 2004 resulted in a \$759 thousand reduction in the balance of the investment in Igasamex USA Ltd. (2003 - \$410 thousand reduction). The Corporation's 40.1 per cent share of Igasamex USA Ltd.'s 2004 net earnings was \$131 thousand (2003 - \$84 thousand).

The cost of the investment exceeds the Corporation's underlying share of the net book value of Igasamex USA Ltd. by approximately \$5,200 thousand (2003 - \$5,240 thousand).

7. Long-Term Debt

<u>Years to Maturity</u>	<u>2004</u>		<u>2003</u>	
	<u>Principal Outstanding</u>	<u>Average Fixed Interest Rate</u>	<u>Principal Outstanding</u>	<u>Average Fixed Interest Rate</u>
	<u>(thousands)</u>	<u>(per cent)</u>	<u>(thousands)</u>	<u>(per cent)</u>
Province of Saskatchewan				
1 - 5	\$ 329,758	8.2	\$ 321,079	8.4
6 - 10	180,000	5.7	169,136	6.7
16 - 30	193,971	7.3	193,971	7.3
	<u>703,729</u>		<u>684,186</u>	
Less sinking fund equity	<u>(32,962)</u>		<u>(26,121)</u>	
Less due within one year	<u>(106,235)</u>		<u>(34,997)</u>	
Due to Province of Saskatchewan	<u>564,532</u>		<u>623,068</u>	
Other	<u>4,816</u>	13.5	<u>4,816</u>	13.5
	<u>\$ 569,348</u>		<u>\$ 627,884</u>	

a. Sinking funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund, SaskEnergy is required (on an annual basis) to invest an amount equal to one per cent of the related outstanding debt. This investment is referred to as a sinking fund. These sinking funds are administered by Saskatchewan's Department of Finance. The investments held in these sinking funds are primarily Province of Saskatchewan debt instruments. The yield on these investments was 6.82 per cent for 2004 (5.20 per cent for 2003).

b. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
December 31, 2004

7. Long-Term Debt (continued)

c. Principal repayments

Principal repayments and sinking fund instalments due in each of the next five years are as follows: (thousands)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Principal	\$ 101,195	\$ 66,597	\$ 47,705	\$ 75,126	\$ 39,136
Sinking fund instalments	<u>5,040</u>	<u>4,290</u>	<u>4,290</u>	<u>3,990</u>	<u>3,740</u>
	<u>\$ 106,235</u>	<u>\$ 70,887</u>	<u>\$ 51,995</u>	<u>\$ 79,116</u>	<u>\$ 42,876</u>

d. Short-term debt

During 2004, the Corporation borrowed funds on a short-term basis from the Province of Saskatchewan's General Revenue Fund at an average interest rate of 2.9 per cent (2003 - 2.9 per cent).

Short-term debt at December 31, 2004 consists of \$78,900 thousand (2003 - \$110,000 thousand) that was due to the Province of Saskatchewan's General Revenue Fund with an interest rate of 2.5 per cent (2003 - 2.7 per cent).

e. Interest expense

Interest expense was as follows:

	<u>2004</u>	<u>2003</u>
	(thousands)	
Interest expense on long-term debt	\$ 51,535	\$ 52,876
Interest expense on short-term debt	1,668	3,050
Amortization of deferred financing costs	1,322	1,053
Sinking fund earnings	(2,301)	(1,173)
Interest on cost of gas sold	(2,209)	(3,527)
Interest capitalized	<u>(553)</u>	<u>(204)</u>
	<u>\$ 49,462</u>	<u>\$ 52,075</u>

Cash interest paid during 2004 on long-term debt was \$51,904 thousand (2003 - \$53,091 thousand).

8. Equity Advances

The Corporation does not have share capital. However, the Corporation has received advances from CIC to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
December 31, 2004

9. Financial Instruments, Commitments and Contingencies

Financial Instruments

a. Fair value of financial instruments

The fair value of the Corporation's financial instruments is listed below:

	2004		2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(thousands)			
Long-term debt	\$ 708,545	\$ 814,123	\$ 689,002	\$ 790,799
Sinking fund equity	32,962	34,692	26,121	27,536
Natural gas price hedges				
owed to (by) SaskEnergy				
- swaps	-	5,682	-	(13,986)
- options	11,302	(11,824)	412	751
Interest rate hedges				
owed to (by) SaskEnergy				
- forward rate agreements	-	-	(6)	(145)

The fair values of the above instruments were based on the following:

- Long-term debt - The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.
- Sinking fund equity - The market value of the investments held in the sinking fund as at year end.
- Natural gas price swaps - The relevant index price in effect as at year end. Swap contracts have been entered into for the period January, 2005 to October, 2006.
- Natural gas price options - The relevant index price in effect as at year end. Option contracts have been entered into for the period January to October, 2005.
- Interest rate hedges - Closing quotations from the counterparty as to the amount to settle the contract as at year end.

The carrying values of other financial instruments (accounts receivable, accounts payable, dividend payable and short-term debt) approximate fair value due to their relatively short-term nature.

- The Corporation has entered into forward purchase agreements to purchase 1.6 petajoules of natural gas during 2005.

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
December 31, 2004

9. Financial Instruments, Commitments and Contingencies (continued)

- c. The Corporation has entered into natural gas price swaps with counterparties, to fix the purchase price for a total of 2.1 petajoules in 2005 and 2006. The natural gas will be held for operations.
- d. The Corporation has entered into natural gas price swaps, to fix the final selling price for the 4.8 petajoules committed for sale during 2005 and 2006.
- e. Credit risk management

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial instruments described above. To reduce its credit risk, SaskEnergy has established policies and procedures to monitor and limit the amount of credit extended to its customers and counterparties.

- f. Guarantees

SaskEnergy has granted a guarantee related to certain obligations established under the Gas Sur S.A. Shareholders' Agreement. The guarantee is expressly limited to \$5,000 thousand United States dollars.

- g. Letters of credit

- i. The Corporation has posted a \$4,008 thousand United States dollar denominated letter of credit in favour of Bank One, N.A., a United States bank. The letter of credit was used as collateral for the Corporation's share of a line of credit Bank One, N.A. has granted to Igasamex Bajio, S. de R.L. de C.V., a wholly owned subsidiary of Integrated Gas Services de Mexico, S. de R.L. de C.V.

Bank One, N.A. may draw upon this letter of credit if Igasamex USA Ltd. defaults under the terms of its loan agreement with Bank One, N.A.

- ii. The Corporation has posted a \$10,000 thousand letter of credit with NGX Financial Inc. (NGX) as security for gas purchase and sales transactions conducted by SaskEnergy on the NGX electronic natural gas exchange in Alberta. NGX may only draw on the letter of credit if SaskEnergy fails to make timely payment for, or delivery of natural gas as per the related contract. The posting of letters of credit is designed to ensure the security of the contracts traded on the NGX. All participants in the NGX are required to post security.
- iii. The Corporation has posted a \$20 thousand letter of credit to Saskatchewan Industry and Resources (SIR). A letter of credit is required by SIR for all remitters of natural gas royalties.

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
December 31, 2004

9. Financial Instruments, Commitments and Contingencies (continued)

Leases

The base lease payments are as follows: (thousands)

<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Thereafter</u>	<u>Total</u>
\$1,819	\$1,724	\$1,629	\$1,625	\$1,582	\$2,500	\$10,879

10. Net Sales From Gas Marketing

Net sales from gas marketing include the following:

	<u>2004</u>	<u>2003</u>
	<u>(thousands)</u>	
Competitive gas sales	\$ 327,018	\$ 271,651
Cost of gas	<u>290,483</u>	<u>235,143</u>
Margin	<u>\$ 36,535</u>	<u>\$ 36,508</u>

Of the \$327,018 thousand (2003 - \$271,651 thousand) in gross revenue from natural gas sales noted above, \$27,093 thousand (2003 - \$21,658 thousand) was generated from natural gas purchased from an affiliate at nil cost. The consideration was equal to the affiliate's carrying value.

11. Revenue Collected For and Paid to Municipalities

a. Natural gas distribution

In accordance with the provisions of *The SaskEnergy Act*, SaskEnergy is required to remit to 109 urban municipalities an amount calculated as either five per cent or three per cent of natural gas sales to customers within the respective municipality. These municipal payments are charged to customers and reported as revenue collected for municipalities. These amounts are remitted to the respective municipalities and reported as payments to municipalities on the consolidated statement of earnings and retained earnings. In 2004, revenue collected and paid to municipalities was \$20,885 thousand (2003 - \$19,149 thousand).

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
December 31, 2004

11. Revenue Collected For and Paid to Municipalities

b. Natural gas transmission

In accordance with the provisions of *The SaskEnergy Act*, TransGas Limited (TransGas) is required to collect from specific customers an amount based on the value of natural gas transported on their behalf. TransGas in turn pays the revenue collected to the certain municipalities. The revenue collected is classified as revenue collected for municipalities, and the expense paid is classified as payments to municipalities on the consolidated statement of earnings and retained earnings. In 2004, revenue collected and paid to municipalities was \$3,385 thousand (2003 - \$5,283 thousand).

12. Saskatchewan Taxes

Saskatchewan taxes include the following:

	2004	2003
	(thousands)	(thousands)
Corporate capital tax	\$ 5,086	\$ 4,615
Mitigation payments and property taxes	1,170	1,164
	<u>\$ 6,256</u>	<u>\$ 5,779</u>

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

13. Net Change in Non-Cash Working Capital

	2004	2003
	(thousands)	(thousands)
Accounts receivable	\$ (29,202)	\$ (25,017)
Natural gas in storage held for resale	(13,864)	23,516
Inventories of supplies	(385)	(1,129)
Accounts payable	17,986	20,399
	<u>\$ (25,465)</u>	<u>\$ 17,769</u>

14. Related Party Transactions

Included in these consolidated financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
December 31, 2004

14. Related Party Transactions (continued)

Routine operating transactions with these related parties are settled at exchange amounts which approximate prevailing market prices under normal trade terms. Transactions during the year, and amounts outstanding at year end, are as follows:

	2004	2003
	(thousands)	(thousands)
Revenue	\$ 38,654	\$ 42,090
Operating expenses	27,463	27,577
Customer capital contributions	4,320	3,345
Accounts receivable	1,362	1,505
Accounts payable	341	704
Natural gas held for resale	401	-

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Province of Saskatchewan's Department of Finance on all of its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

15. Employees' Future Benefits

a. Pension plans

Substantially all employees of the Corporation are members of either a defined contribution or a defined benefit pension plan. During the year, the Corporation contributed \$2,824 thousand (2003 - \$2,819 thousand) on behalf of employees for current services.

b. Retiring allowance plan

The defined benefit retiring allowance plan for management employees and members of the Communications, Energy and Paperworkers Union, Local 649 is as follows:

	2004	2003
	(thousands)	(thousands)
Accrued benefit liability	\$ 12,239	\$ 10,868
Benefits paid during the year	494	800
Net expense	2,502	2,295

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
December 31, 2004

15. Employees' Future Benefits (continued)

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit liability at December 31 are:

	<u>2004</u>	<u>2003</u>
Discount rate	4.50 per cent	5.00 per cent
Inflation rate	3.00 per cent	3.00 per cent
Average remaining employee service life	8.4 years	8.6 years

16. Heritage Gas Limited

a. Joint venture interest

On February 7, 2003 Heritage Gas Limited (Heritage Gas) received regulatory approval for the franchise to distribute natural gas to all or part of six counties in the Province of Nova Scotia. The Corporation owns 50.1 per cent of Heritage Gas.

The Corporation's 50.1 per cent proportionate interest in the Heritage Gas joint venture is as follows:

i. Consolidated statement of financial position

	<u>2004</u>	<u>2003</u>
	(thousands)	(thousands)
Current assets	\$ 831	\$ 845
Property, plant and equipment	9,048	4,565
Regulatory receivable	1,059	122
Deferred charges	203	44
Current liabilities	(902)	(945)
Net investment	<u>\$ 10,239</u>	<u>\$ 4,631</u>

ii. Consolidated statement of earnings

	<u>2004</u>	<u>2003</u>
	(thousands)	(thousands)
Revenue	\$ 1,182	\$ 210
Expenses	(407)	(9)
Net earnings	<u>\$ 775</u>	<u>\$ 201</u>

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
December 31, 2004

16. Heritage Gas Limited (continued)

iii. Consolidated statement of cash flows

	2004	2003
	(thousands)	
Cash (used in) provided by operating activities	\$ (568)	\$ 376
Cash (used in) investing activities	(4,645)	(4,609)
Decrease in cash	<u>\$ (5,213)</u>	<u>\$ (4,233)</u>

b. Effect of regulation

Heritage Gas is engaged in the distribution and sale of natural gas in the Province of Nova Scotia and is regulated by the Nova Scotia Utility and Review Board (NSUARB). The regulations cover such matters as tariffs, rates, construction, operations, financing, and accounting. Heritage Gas's accounting policies conform to generally accepted accounting principles for rate regulated utilities and reflect the policies established from time to time by the NSUARB. Rate regulation creates differences between the manner in which Heritage Gas accounts for transactions or events and how they would be accounted for if Heritage Gas was not regulated. The following is a description of the effects of regulation on Heritage Gas as they relate to the Corporation's 50.1 per cent interest:

i. Revenue deficiency account (RDA)

Heritage Gas has approval from the NSUARB to use a Revenue Deficiency Account (RDA). The RDA changes based on the difference between the actual revenue billed and the revenue required to earn the rates of return approved by the NSUARB. In Heritage Gas' customer development stage, it is expected that the actual revenue billed will be less than the revenue required to earn the approved rates of return and therefore an RDA asset will accumulate.

As the distribution network matures, the actual revenue billed is expected to exceed the revenue required to earn the approved rates of return and, the RDA will be drawn down. The recovery of any residual balance in the RDA at December 31, 2008 is subject to approval by the NSUARB.

The RDA as at December 31, 2004 was \$1,059 thousand (December 31, 2003 - \$122 thousand). The effect of the RDA accumulation was to increase revenue in 2004 by \$937 thousand (2003 - \$122 thousand).

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
December 31, 2004

16. Heritage Gas Limited (continued)

ii. Allowance for funds used during construction (AFUDC)

Heritage Gas capitalizes an imputed carrying cost on assets under construction. The amount capitalized is disclosed on the income statement as AFUDC. The calculation method and rate of AFUDC have been approved by the NSUARB.

iii. Operating expenses

The NSUARB has approved the capitalization of operating and maintenance expenses. If Heritage Gas was not subject to rate regulation, certain of these amounts would not be capitalized.

iv. Income and other taxes

Heritage Gas follows the taxes payable method of accounting for income taxes. Provision is only made for those income taxes currently payable and no future tax is recorded on timing differences between accounting and taxable income.

17. Segmented Information

SaskEnergy operates predominantly in the following two industry segments:

Distribution (Distribution Division of SaskEnergy) provides natural gas distribution services to the Province of Saskatchewan.

Transportation (TransGas Limited) operates the major natural gas transmission pipeline system within Saskatchewan providing open access transmission services including gathering, compression and natural gas processing to end-use customers, marketers and export producers. This company also provides natural gas storage services.

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
December 31, 2004

17. Segmented Information (continued)

Statement of Earnings

(\$ millions)	Distribution		Transportation		Other ¹		Intercompany ²		Total	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Revenue										
Delivery revenue	167.9	171.4	-	-	1.8	0.6	(7.4)	(7.2)	162.3	164.8
Transportation and storage	-	-	136.2	134.3	3.5	3.6	(51.3)	(56.9)	88.4	81.0
Net sales from gas marketing	-	-	-	-	26.9	30.6	9.6	5.9	36.5	36.5
Revenue collected for municipalities	20.9	19.1	3.4	5.3	-	-	-	-	24.3	24.4
Other	8.3	5.7	-	-	7.0	7.5	(9.4)	(7.1)	5.9	6.1
	<u>197.1</u>	<u>196.2</u>	<u>139.6</u>	<u>139.6</u>	<u>39.2</u>	<u>42.3</u>	<u>(58.5)</u>	<u>(65.3)</u>	<u>317.4</u>	<u>312.8</u>
Expenses										
Operating and maintenance	111.5	113.6	56.4	54.9	5.1	6.2	(55.3)	(61.3)	117.7	113.4
Interest	16.7	17.9	26.7	27.9	2.2	1.7	3.9	4.6	49.5	52.1
Amortization	23.8	23.5	23.9	23.1	1.0	2.2	0.9	-	49.6	48.8
Payments to municipalities	20.9	19.1	3.4	5.3	-	-	-	-	24.3	24.4
Saskatchewan taxes	3.2	2.9	2.4	2.2	0.6	0.7	-	-	6.2	5.8
	<u>176.1</u>	<u>177.0</u>	<u>112.8</u>	<u>113.4</u>	<u>8.9</u>	<u>10.8</u>	<u>(50.5)</u>	<u>(56.7)</u>	<u>247.3</u>	<u>244.5</u>
Net earnings from operations before the following	<u>21.0</u>	<u>19.2</u>	<u>26.8</u>	<u>26.2</u>	<u>30.3</u>	<u>31.5</u>	<u>(8.0)</u>	<u>(8.6)</u>	<u>70.1</u>	<u>68.3</u>
Commodity revenue	386.4	374.4	-	-	0.6	0.4	-	(0.1)	387.0	374.7
Cost of gas sold	351.5	405.6	-	-	0.7	0.7	(2.9)	(4.3)	349.3	402.0
Gain (loss) from commodity sales	34.9	(31.2)	-	-	(0.1)	(0.3)	2.9	4.2	37.7	(27.3)
Net earnings (loss)	<u>55.9</u>	<u>(12.0)</u>	<u>26.8</u>	<u>26.2</u>	<u>30.2</u>	<u>31.2</u>	<u>(5.1)</u>	<u>(4.4)</u>	<u>107.8</u>	<u>41.0</u>

SaskEnergy Incorporated
Notes to the Consolidated Financial Statements
December 31, 2004

17. Segmented Information (continued)

Statement of Financial Position

(\$ millions)	Distribution		Transportation		Other ¹		Intercompany ²		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Assets										
Current assets	268.3	228.3	13.7	42.9	4.2	7.8	(6.1)	(45.9)	280.1	233.1
Property, plant & equipment, & natural gas in storage	407.0	404.4	525.6	522.5	42.2	40.4	(0.3)	-	974.5	967.3
Investments & other assets	6.3	7.1	3.8	4.5	24.7	24.0	(3.0)	(0.8)	31.8	34.8
	<u>681.6</u>	<u>639.8</u>	<u>543.1</u>	<u>569.9</u>	<u>71.1</u>	<u>72.2</u>	<u>(9.4)</u>	<u>(46.7)</u>	<u>1,286.4</u>	<u>1,235.2</u>
Liabilities and Equity										
Current liabilities	222.2	175.9	148.0	78.5	18.8	25.4	(17.9)	18.5	371.1	298.3
Long-term debt	240.2	251.6	220.6	314.5	16.1	15.5	92.4	46.3	569.3	627.9
	<u>462.4</u>	<u>427.5</u>	<u>368.6</u>	<u>393.0</u>	<u>34.9</u>	<u>40.9</u>	<u>74.5</u>	<u>64.8</u>	<u>940.4</u>	<u>926.2</u>
Equity	219.2	212.3	174.5	176.9	36.2	31.3	(83.9)	(111.5)	346.0	309.0
	<u>681.6</u>	<u>639.8</u>	<u>543.1</u>	<u>569.9</u>	<u>71.1</u>	<u>72.2</u>	<u>(9.4)</u>	<u>(46.7)</u>	<u>1,286.4</u>	<u>1,235.2</u>

¹The Other category includes Bayhurst Gas Limited, Many Islands Pipe Lines (Canada) Limited, Saskatchewan First Call Corporation, SaskEnergy International Incorporated, Swan Valley Gas Corporation and SaskEnergy Nova Scotia Holdings Ltd.

²The Intercompany category includes general corporate assets, liabilities, revenue and expenses, and also reflects the elimination of intercompany transactions required upon consolidation.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Corporation accounts for intercompany sales as if the sales were made to third parties at current market prices.

The reportable segments are the major strategic business units of the Corporation. Each business unit is managed separately as it provides products and services requiring different business, technology and marketing strategies.

18. Comparative Figures

Certain of the prior year amounts have been reclassified to conform to the current year's presentation.

**SASKENERGY INCORPORATED
DISTRIBUTION DIVISION**

FINANCIAL STATEMENTS

December 31, 2004

Auditors' Report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the statement of financial position of SaskEnergy Incorporated – Distribution Division as at December 31, 2004 and the statements of earnings and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Distribution Division's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Distribution Division as at December 31, 2004, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
February 8, 2005

**SASKENERGY INCORPORATED -
DISTRIBUTION DIVISION**
Statement of Financial Position

As at December 31
(thousands of dollars)

	2004	2003
Assets		
Current assets		
Accounts receivable	\$ 162,937	\$ 134,286
Natural gas in storage held for resale	94,268	81,745
Intercompany accounts receivable	5,368	6,437
Inventories of supplies	5,740	5,856
	<u>268,313</u>	<u>228,324</u>
Property, plant and equipment (Note 5)	406,982	404,429
Deferred charges (Note 6)	6,361	7,073
	<u>\$ 681,656</u>	<u>\$ 639,826</u>
Liabilities and Holdings Division's Equity		
Current liabilities		
Bank indebtedness	\$ 78,117	\$ 53,020
Accounts payable	124,605	99,680
Intercompany accounts payable	8,718	9,105
Current portion of notes payable (Note 7)	12,372	14,119
	<u>223,812</u>	<u>175,924</u>
Notes payable to Holdings Division (Note 7)	238,603	251,635
	<u>462,415</u>	<u>427,559</u>
Holdings Division's equity		
Equity advances (Note 8)	228,410	277,410
Deficit	(9,169)	(65,143)
	<u>219,241</u>	<u>212,267</u>
	<u>\$ 681,656</u>	<u>\$ 639,826</u>

Commitments (Note 9)

(See accompanying notes)

On behalf of the Board:



Director



Director

**SASKENERGY INCORPORATED -
DISTRIBUTION DIVISION**
Statement of Earnings and Deficit

Years ended December 31
(thousands of dollars)

	2004	2003
Revenue		
Delivery revenue	\$ 167,876	\$ 171,411
Revenue collected for municipalities (Note 10)	20,885	19,149
Other revenue (Note 11)	8,386	5,644
	<u>197,147</u>	<u>196,204</u>
Expenses		
Operating and maintenance	72,076	69,505
Transportation and storage	39,437	44,116
Amortization (Note 5)	23,784	23,496
Interest (Note 7)	16,702	17,864
Payments to municipalities (Note 10)	20,885	19,149
Saskatchewan taxes (Note 12)	3,180	2,864
	<u>176,064</u>	<u>176,994</u>
Earnings from operations before the following	<u>21,083</u>	<u>19,210</u>
Commodity sales revenue	386,448	374,448
Cost of gas sold	<u>351,557</u>	<u>405,624</u>
Gain (loss) from commodity sales (Note 4)	<u>34,891</u>	<u>(31,176)</u>
Net earnings (loss)	55,974	(11,966)
Deficit, beginning of year	<u>(65,143)</u>	<u>(53,177)</u>
Deficit, end of year	<u>\$ (9,169)</u>	<u>\$ (65,143)</u>

(See accompanying notes)

SASKENERGY INCORPORATED - DISTRIBUTION DIVISION

Statement of Cash Flows

Years ended December 31

(thousands of dollars)

	2004	2003
Operating Activities		
Net earnings (loss)	\$ 55,974	\$ (11,966)
Add (deduct) items not requiring an outlay of cash		
Amortization of property, plant and equipment (Note 5)	25,951	25,203
Amortization of customer capital contributions (Note 5)	(2,167)	(1,707)
Amortization of deferred charges (Note 6)	712	712
Sinking fund earnings (Note 7)	(660)	(324)
	<u>79,810</u>	<u>11,918</u>
Net change in non-cash working capital related to operations (Note 13)	<u>(15,451)</u>	<u>(22,377)</u>
Cash provided by (used in) operating activities	<u>64,359</u>	<u>(10,459)</u>
Investing Activities		
Net additions to property, plant, and equipment	(29,780)	(31,190)
Increase in customer capital contributions (Note 5)	<u>3,443</u>	<u>3,394</u>
Cash used in investing activities	<u>(26,337)</u>	<u>(27,796)</u>
Financing Activities		
(Decrease) increase in equity advances from Holdings Division (Note 8)	(49,000)	31,500
Increase in bank indebtedness	25,097	8,395
Repayment of notes payable to Holdings Division	(12,479)	-
Sinking fund instalments	<u>(1,640)</u>	<u>(1,640)</u>
Cash (used in) provided by financing activities	<u>(38,022)</u>	<u>38,255</u>
Increase in cash during the year	-	-
Cash position, beginning of year	-	-
Cash position, end of year	<u>\$ -</u>	<u>\$ -</u>

(See accompanying notes)

**SaskEnergy Incorporated -
Distribution Division
Notes to the Financial Statements
December 31, 2004**

1. Status of the Corporation

SaskEnergy Incorporated (SaskEnergy) is a Saskatchewan provincial Crown corporation operating under authority of *The SaskEnergy Act*.

By virtue of *The Crown Corporations Act, 1993*, SaskEnergy has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a provincial Crown corporation. Accordingly, the financial results of SaskEnergy are included in the consolidated financial statements of CIC.

As a provincial Crown corporation, SaskEnergy and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

SaskEnergy has the legislated franchise right to distribute natural gas in Saskatchewan.

There are two separate divisions (business units) within SaskEnergy. These financial statements reflect only the results of operations of the natural gas distribution utility referred to as the Distribution Division, the Corporation or SaskEnergy. The other division is referred to as the Holdings Division.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. The following accounting policies are considered to be significant:

a. Inventories of supplies

Inventories of supplies consist primarily of pipe and general stock for construction and maintenance and are recorded at average cost.

b. Natural gas in storage held for resale

Natural gas in storage held for resale is stated at the lower of cost and net realizable value. Natural gas held for resale removed from storage is accounted for on an average cost basis.

c. Property, plant and equipment

Property, plant and equipment is stated at cost and includes all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment, is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in earnings for the current period.

**SaskEnergy Incorporated -
Distribution Division
Notes to the Financial Statements
December 31, 2004**

2. Summary of Significant Accounting Policies (continued)

c. Property, plant and equipment (continued)

Other asset retirements are recorded by reducing the account by the cost of the asset and charging this amount, net of proceeds received, to accumulated amortization.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows: (in per cent)

Distribution		Buildings	4.0
- Stations	3.0	Leasehold improvements	4.0 to 10.0
- Mains (urban)	2.5	Computers	
- Services (urban)	3.3	- Hardware	20.0 to 50.0
- Meters	3.5	- Software	10.0 to 20.0
- Mains and services		Vehicles, tools and equipment	8.0 to 11.1
(rural)	2.5	Furniture and fixtures	4.0

Customer capital contributions relate to construction of new service connections. These contributions from customers are amortized on a straight-line basis over the estimated service life of the related asset.

d. Revenue recognition

Delivery and commodity revenue are recognized when natural gas is delivered to customers. An estimate of gas delivered, but not billed as of December 31, is included in revenue.

e. Cost of gas sold

The cost of gas sold includes the cost of purchasing natural gas on the open market, net hedging settlements, transportation, direct operating costs related to supply acquisition, and natural gas inventory carrying costs.

f. Competitive gas sales

Where the Corporation purchases natural gas in the open market at a fixed purchase price and simultaneously enters into agreements to sell this natural gas at a fixed selling price the gain or loss is recorded at the time the transaction is settled.

In addition, the Corporation may enter into contracts that require either the physical delivery (sale) or receipt (purchase) of natural gas in a future period. Contracts may be structured so that the settlement price is determined in the future at the time of delivery or receipt. Changes in the value of the contract due to a change in market prices up to the date of settlement are recorded as gains or losses in the period of change.

**SaskEnergy Incorporated -
Distribution Division
Notes to the Financial Statements
December 31, 2004**

2. Summary of Significant Accounting Policies (continued)

g. Derivative instruments

The Corporation uses various derivative instruments to hedge its operating exposures to fluctuations in foreign currency exchange rates and natural gas costs. A Corporate Derivatives Policy and specific hedging strategies establish the guidelines within which such instruments may be used. These policies require that SaskEnergy use instruments only to manage risks associated with transactions undertaken in the normal course of business.

Hedge accounting is used when there is a high degree of correlation between price movements in the derivative instrument and the item designated as being hedged. Gains and losses are recognized in the same period as the hedged item is settled and are recorded in the statement of earnings and deficit. If correlation ceases, hedge accounting is terminated and future changes in the market value of the derivative instruments are recognized as gains or losses in the period of change.

i. Natural gas price risk management

The Corporation may hedge the purchase price and sale price of natural gas. The purchase or sale price of gas may be fixed within the contract, or referenced to a floating index price. When the price is referenced to a floating index price, instruments may be used as a hedge to fix the settlement amount. The types of instruments SaskEnergy uses to effect these hedges include natural gas price swaps, options, and swaptions traded on the over-the-counter market. In addition, SaskEnergy may use futures contracts and options on futures contracts traded on the New York Mercantile Exchange. The Corporation may sell options to generate premium revenue, which is used to offset the cost to purchase call options.

Derivative instruments that do not qualify for hedge accounting are recorded at fair value on a gross basis in the statement of financial position in accounts receivable or accounts payable as applicable. Gains and losses resulting from changes in fair value are recorded in the statement of earnings in the cost of gas.

ii. Foreign currency exchange risk management

The Corporation uses instruments to hedge the foreign currency exchange rate on foreign currency denominated transactions. For the purpose of hedging the exchange rate on transactions denominated in foreign currency, SaskEnergy may use currency forwards and currency options.

**SaskEnergy Incorporated -
Distribution Division
Notes to the Financial Statements
December 31, 2004**

2. Summary of Significant Accounting Policies (continued)

h. Employees' future benefits

The Corporation provides pension plans for all eligible employees, including a defined contribution pension plan and a defined benefit pension plan. The defined contribution pension plan is governed by *The Public Employees Pension Plan Act and Regulations*. The defined benefit pension plan is governed by *The Superannuation (Supplementary Provisions) Act and Regulations*, as well as *The Power Corporation Superannuation Act*.

Under both plans the Corporation's obligations are limited to making regular payments to the plans for current services. When made, these contributions are charged to expenses.

The cost of future retirement allowance benefits earned by employees is actuarially determined using the projected benefit method and management's best estimates. Past service costs are amortized on a straight-line basis over the estimated average remaining service period of active employees.

i. Deferred financing charges

Included in deferred financing charges are issue costs, discounts resulting from the issue of long-term debt, and costs of terminating delayed start interest rate swaps relating to financing of debt. These deferred financing charges are amortized as part of interest expense over the term of the related debt on a straight-line basis.

3. Change in Accounting Policy

Effective, January 1, 2004, the Corporation commenced application of the new Canadian Institute of Chartered Accountants Accounting Guideline 13. The guideline requires identification, designation, documentation and effectiveness of hedging relationships be established at the inception of each hedge in order to apply hedge accounting. Hedge accounting is used when there is a high degree of correlation between price movements in the derivative financial instrument and the item designated as being hedged. Gains and losses are recognized in the same period as the hedged item is settled and are recorded in the statement of earnings and deficit. If correlation ceases, hedge accounting is terminated and future changes in the market value of the derivative instruments are recognized as gains or losses in the period of change. For those derivative instruments that existed at January 1, 2004, there was no material impact on these financial statements as a result of the adoption of Accounting Guideline 13. For those derivative instruments entered into during 2004 that did not qualify for hedge accounting under Accounting Guideline 13, a mark-to-market gain of \$11,321 thousand was recognized in income. The mark-to-market gain relates to unexpired derivative instruments for the period January 1, 2005 to October 31, 2005.

**SaskEnergy Incorporated -
Distribution Division
Notes to the Financial Statements
December 31, 2004**

4. Saskatchewan Rate Review Panel

a. Saskatchewan rate review panel

During 2000, the Saskatchewan Rate Review Panel was established by Minister's Order. The Panel was established to conduct a review of the Corporation's request for a change in rates charged for natural gas commodity sales and delivery service. The review of proposed rate changes considers the interests of the consumer, the Corporation and the public.

b. Gas cost variance account

For rate setting purposes, SaskEnergy's approved selling price for natural gas is based on the principle that there is neither a profit nor a loss on natural gas sold to customers. Therefore, the Corporation established a Gas Cost Variance Account (GCVA) to accumulate differences between commodity revenue and cost of gas sold. Subject to approval of the Government of Saskatchewan, balances accumulated in the GVCA are either recovered from or refunded to customers through future rates.

The GVCA is required by Cabinet to be audited annually by the Provincial Auditor. The Provincial Auditor's audit report on the GCVA is provided to the Saskatchewan Rate Review Panel.

The \$34,891 thousand gain from commodity sales includes \$23,570 thousand from natural gas sales to consumers plus an \$11,321 thousand mark-to-market gain on unexpired derivative instruments that do not qualify for hedge accounting. The mark-to-market gain relates to unexpired derivative instruments for the period January 1, 2005 to October 31, 2005.

5. Property, Plant and Equipment

	2004			2003		
	(thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Mains and services	\$ 511,157	\$ 145,780	\$ 365,377	\$494,885	\$ 132,453	\$362,432
Regulator stations	55,610	15,576	40,034	53,482	13,780	39,702
Metering	34,599	12,948	21,651	33,896	12,120	21,776
Computer systems	40,481	27,170	13,311	37,755	23,525	14,230
Vehicles, equipment	33,534	17,810	15,724	30,629	15,352	15,277
Tools, buildings and furniture	29,717	8,835	20,882	27,186	7,453	19,733
	<u>\$ 705,098</u>	<u>\$ 228,119</u>	<u>476,979</u>	<u>\$677,833</u>	<u>\$ 204,683</u>	<u>473,150</u>
Less:						
Unamortized customer capital contributions			69,997			68,721
			<u>\$ 406,982</u>			<u>\$404,429</u>

**SaskEnergy Incorporated -
Distribution Division
Notes to the Financial Statements
December 31, 2004**

5. Property, Plant and Equipment (continued)

a. Customer capital contributions

Customer capital contributions are required to be paid by customers to SaskEnergy to aid in construction of certain customer-specific facilities in accordance with established business policies.

	<u>2004</u>	<u>2003</u>
	(thousands)	
Balance, beginning of year	\$ 68,721	\$ 67,034
Contributions received	3,443	3,394
Contributions amortized	<u>(2,167)</u>	<u>(1,707)</u>
Balance, end of year	<u>\$ 69,997</u>	<u>\$ 68,721</u>

b. Amortization

	<u>2004</u>	<u>2003</u>
	(thousands)	
Amortization of property, plant and equipment	\$ 25,951	\$ 25,203
Amortization of customer capital contributions	<u>(2,167)</u>	<u>(1,707)</u>
	<u>\$ 23,784</u>	<u>\$ 23,496</u>

The composite rate of amortization (excluding the effect of customer capital contributions amortization) was 3.8 per cent during 2004 (3.8 per cent during 2003).

Included in distribution assets is an amount net of amortization of \$2,904 thousand (2003 - \$3,002 thousand) paid to TransGas Limited (an affiliate) as a contribution in aid of construction of certain pipeline facilities. Amortization expense related to this amount in 2004 was \$98 thousand (2003 - \$98 thousand).

**SaskEnergy Incorporated -
Distribution Division
Notes to the Financial Statements
December 31, 2004**

6. Deferred Charges

Deferred charges include the following:

	<u>2004</u>	<u>2003</u>
	(thousands)	
Unamortized deferred financing charges	\$ 4,099	\$ 4,359
Unamortized past service costs	<u>2,262</u>	<u>2,714</u>
	<u>\$ 6,361</u>	<u>\$ 7,073</u>

7. Notes Payable to Holdings Division

<u>Years to Maturity</u>	<u>Principal Outstanding</u> (thousands)	<u>Average Fixed Interest Rate</u> (per cent)	<u>Principal Outstanding</u> (thousands)	<u>Average Fixed Interest Rate</u> (per cent)
1 - 5	\$ 151,600	7.60	\$ 148,044	7.75
6 - 10	-	-	16,035	9.76
11 - 30	<u>108,971</u>	<u>6.33</u>	<u>108,971</u>	<u>6.33</u>
	260,571		273,050	
Less sinking fund equity	<u>(9,596)</u>		<u>(7,296)</u>	
	250,975		265,754	
Less due within one year	<u>(12,372)</u>		<u>(14,119)</u>	
	<u>\$ 238,603</u>		<u>\$ 251,635</u>	

a. Sinking funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund, SaskEnergy is required (on an annual basis) to invest an amount equal to one per cent of the outstanding debt. This investment is referred to as a sinking fund. These sinking funds are administered by Saskatchewan's Department of Finance. The investments held in these sinking funds are primarily Province of Saskatchewan debt instruments. The yield on these investments was 6.82 per cent for 2004 (5.20 per cent for 2003).

b. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

**SaskEnergy Incorporated -
Distribution Division
Notes to the Financial Statements
December 31, 2004**

7. Notes Payable to Holdings Division (continued)

c. Principal repayments

Principal repayments and sinking fund instalments due in each of the next five years are as follows: (thousands)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Principal	\$ 10,732	\$ 42,043	\$ 37,254	\$ 45,537	\$ 16,034
Sinking fund instalments	<u>1,640</u>	<u>1,640</u>	<u>1,640</u>	<u>1,340</u>	<u>1,090</u>
	<u>\$ 12,372</u>	<u>\$ 43,683</u>	<u>\$ 38,894</u>	<u>\$ 46,877</u>	<u>\$ 17,124</u>

d. Interest expense

Interest expense was as follows:

	<u>2004</u>	<u>2003</u>
	(thousands)	
Interest on notes payable to Holdings Division	\$ 19,241	\$ 19,939
Interest on bank indebtedness	108	1,568
Amortization of deferred financing charges	259	259
Sinking fund earnings	(660)	(324)
Interest capitalized	(46)	(57)
Interest on cost of gas sold	<u>(2,200)</u>	<u>(3,521)</u>
	<u>\$ 16,702</u>	<u>\$ 17,864</u>

Cash interest paid during 2004 on notes payable to Holdings Division was \$19,241 thousand (2003 - \$19,939 thousand).

8. Equity Advances

The Distribution Division does not have share capital. However, the Distribution Division has received equity advances from the Holdings Division to form its equity capitalization. The advances reflect an equity investment in the Distribution Division by the Holdings Division.

The Distribution Division refunded equity of \$49,000 thousand in 2004 (2003 - \$31,500 thousand was advanced from Holdings Division).

**SaskEnergy Incorporated -
Distribution Division
Notes to the Financial Statements
December 31, 2004**

9. Financial Instruments and Commitments

a. Fair value of financial instruments

The fair value of the Corporation's financial instruments is listed below:

	2004		2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(thousands)			
Long-term debt	\$ 260,571	\$ 292,223	\$ 273,050	\$ 302,805
Sinking fund equity	9,595	10,098	7,296	7,691
Natural gas price hedges				
owed to (by) SaskEnergy				
- swaps	-	5,048	-	(12,952)
- options	11,302	(11,824)	412	751

The fair values of the above instruments were based on the following:

- i. Long-term debt - The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.
- ii. Sinking fund equity - The market value of the investments held in the sinking fund as at year end.
- iii. Natural gas price swaps - The relevant index price in effect as at year end. Swap contracts have been entered into for the period January, 2005 to October, 2006.
- iv. Natural gas price options - The relevant index price in effect as at year end. Option contracts have been entered into for the period January, 2005 to October, 2005.

The carrying values of other financial instruments (accounts receivable, intercompany accounts receivable, accounts payable, intercompany accounts payable and bank indebtedness) approximate fair value due to their relatively short term nature.

b. Credit risk management

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial instruments described above. To reduce its credit risk, SaskEnergy has established policies and procedures to monitor and limit the amount of credit extended to its customers and counterparties.

**SaskEnergy Incorporated -
Distribution Division
Notes to the Financial Statements
December 31, 2004**

9. Financial Instruments and Commitments (continued)

c. Letter of credit

SaskEnergy has posted a \$10,000 thousand letter of credit with NGX Financial Inc. (NGX) as security for gas purchase and sales transactions conducted by SaskEnergy on the NGX electronic natural gas exchange in Alberta. NGX may only draw on the letter of credit if SaskEnergy fails to make timely payment for, or delivery of natural gas as per the related contract. The posting of letters of credit is designed to ensure the security of the contracts traded on the NGX. All participants in the NGX are required to post security.

10. Revenue Collected for and Paid to Municipalities

In accordance with the provisions of *The SaskEnergy Act*, SaskEnergy is required to remit to 109 urban municipalities an amount calculated as either five percent or three percent of natural gas sales to customers within the respective municipality. These municipal payments are charged to customers and reported as revenue collected for municipalities. These amounts are remitted to the respective municipalities and reported as payments to municipalities on the statement of earnings.

11. Other Revenue

Other revenue includes the following:

	2004	2003
	(thousands)	
Competitive gas sales	\$ 326,746	\$ 245,799
Cost of gas	320,961	242,778
Margin on competitive gas sales	5,785	3,021
Customer connect, disconnect and late payment fees	2,244	1,954
Customer service fees	357	669
	<u>\$ 8,386</u>	<u>\$ 5,644</u>

12. Saskatchewan Taxes

Saskatchewan taxes include the following:

	2004	2003
	(thousands)	
Corporate capital tax	\$ 3,052	\$ 2,742
Property tax	128	122
	<u>\$ 3,180</u>	<u>\$ 2,864</u>

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

**SaskEnergy Incorporated -
Distribution Division
Notes to the Financial Statements
December 31, 2004**

13. Net Change in Non-Cash Working Capital

The net change in non-cash working capital related to operations was as follows:

	<u>2004</u>	<u>2003</u>
	(thousands)	
Accounts receivable	\$ (28,651)	\$ (27,800)
Natural gas in storage held for resale	(12,523)	3,146
Intercompany accounts receivable	1,069	(187)
Inventories of supplies	116	(1,023)
Accounts payable	24,925	5,937
Intercompany accounts payable	(387)	(2,450)
	<u>\$ (15,451)</u>	<u>\$ (22,377)</u>

14. Related Party Transactions

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

- a. Related party transactions with the Holdings Division and the Corporation's subsidiary corporations were as follows:

	<u>2004</u>	<u>2003</u>
	(thousands)	
Transportation and storage	<u>\$ 39,437</u>	<u>\$ 44,132</u>
Cost of gas sold	<u>2,123</u>	<u>3,575</u>
Interest expense	<u>18,841</u>	<u>19,873</u>
Delivery revenue	<u>10,106</u>	<u>10,031</u>
Other revenue	<u>5,379</u>	<u>3,930</u>
Purchase of property, plant and equipment	<u>35</u>	<u>-</u>

- b. Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

**SaskEnergy Incorporated -
Distribution Division
Notes to the Financial Statements
December 31, 2004**

14. Related Party Transactions (continued)

These transactions, and amounts outstanding at year end, are as follows:

	<u>2004</u>	<u>2003</u>
	(thousands)	(thousands)
Operating expenses	<u>\$ 19,384</u>	<u>\$ 18,434</u>
Revenue	<u>18,724</u>	<u>20,411</u>
Accounts receivable	<u>1,124</u>	<u>1,495</u>
Customer capital contributions	<u>601</u>	<u>632</u>
Accounts payable	<u>227</u>	<u>554</u>

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all of its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

15. Employees' Future Benefits

a. Pension plans

Employees of the Corporation are members of either a defined contribution or a defined benefit pension plan. During the year, the Corporation contributed \$2,066 thousand (2003 - \$2,044 thousand) on behalf of employees for current services.

b. Retiring allowance plan

The defined benefit retiring allowance plan for management employees and members of the Communications, Energy and Paperworkers Union, Local 649 is as follows:

	<u>2004</u>	<u>2003</u>
	(thousands)	(thousands)
Accrued benefit liability	<u>\$ 9,008</u>	<u>\$ 7,733</u>
Benefits paid during the year	<u>430</u>	<u>710</u>
Net expense	<u>1,847</u>	<u>1,882</u>

**SaskEnergy Incorporated -
Distribution Division
Notes to the Financial Statements
December 31, 2004**

15. Employees' Future Benefits (continued)

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit liability at December 31 are:

	<u>2004</u>	<u>2003</u>
Discount rate	4.50 per cent	5.00 per cent
Inflation rate	3.00 per cent	3.00 per cent
Average remaining employee service life	8.4 years	8.5 years

16. Comparative Figures

Certain of the prior year amounts have been reclassified to conform to the current year's presentation.

**SASKENERGY INCORPORATED
HOLDINGS DIVISION**

FINANCIAL STATEMENTS

December 31, 2004

Auditors' Report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the statement of financial position of SaskEnergy Incorporated – Holdings Division as at December 31, 2004 and the statements of earnings and retained earnings and cash flows for the year then ended. These non-consolidated financial statements have been prepared primarily for tabling in the Legislative Assembly, Province of Saskatchewan. These financial statements are the responsibility of the Holdings Division's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Holdings Division as at December 31, 2004, and the results of its operations and its cash flows for the year then ended in accordance with the basis of accounting disclosed in note 3 to the financial statements.

These financial statements, which have not been, and were not intended to be, prepared in accordance with Canadian generally accepted accounting principles, are solely for the information and use of the Legislative Assembly, Province of Saskatchewan. These financial statements are not intended to be and should not be used by anyone other than specified users or for any other purpose.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
February 8, 2005

**SASKENERGY INCORPORATED -
HOLDINGS DIVISION**
Statement of Financial Position

As at December 31
(thousands of dollars)

	2004	2003
Assets		
Current assets		
Cash	\$ 102,296	\$ 18,809
Dividends receivable	18,222	38,509
Intercompany accounts receivable	12,973	13,525
Prepaid expense	70	-
	<u>133,561</u>	<u>70,843</u>
Investments (Note 5)	838,770	917,404
Deferred financing charges	3,871	7,037
	<u>\$ 976,202</u>	<u>\$ 995,284</u>
Liabilities and Province's Equity		
Current liabilities		
Short-term debt	\$ 78,900	\$ 110,000
Interest payable	13,230	13,547
Dividend payable	26,500	10,560
Current portion of long-term debt (Note 6)	106,235	34,997
	<u>224,865</u>	<u>169,104</u>
Long-term debt (Note 6)	564,532	623,068
	<u>789,397</u>	<u>792,172</u>
Province of Saskatchewan's equity		
Equity advances (Note 7)	71,531	71,531
Retained earnings	115,274	131,581
	<u>186,805</u>	<u>203,112</u>
	<u>\$ 976,202</u>	<u>\$ 995,284</u>

(See accompanying notes)

On behalf of the Board:



Director



Director

**SASKENERGY INCORPORATED -
HOLDINGS DIVISION**
Statement of Earnings and Retained Earnings

Years ended December 31
(thousands of dollars)

	<u>2004</u>	<u>2003</u>
Revenue		
Dividends	\$ 58,581	\$ 74,709
Interest	<u>46,785</u>	<u>50,211</u>
	<u>105,366</u>	<u>124,920</u>
Expenses		
Interest (Note 6)	51,662	54,848
Operating and maintenance	<u>11</u>	<u>-</u>
	<u>51,673</u>	<u>54,848</u>
Net earnings	53,693	70,072
Retained earnings, beginning of year	131,581	88,169
Dividends	<u>(70,000)</u>	<u>(26,660)</u>
Retained earnings, end of year	<u>\$ 115,274</u>	<u>\$ 131,581</u>

(See accompanying notes)

**SASKENERGY INCORPORATED -
HOLDINGS DIVISION**
Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	2004	2003
Operating Activities		
Net earnings	\$ 53,693	\$ 70,072
Add (deduct) items not requiring an outlay of cash		
Amortization of deferred financing costs (Note 6)	1,035	1,046
Sinking fund earnings (Note 6)	(2,301)	(1,174)
	<u>52,427</u>	<u>69,944</u>
Net change in non-cash working capital related to operations (Note 8)	<u>20,452</u>	<u>(1,316)</u>
Cash provided by operating activities	<u>72,879</u>	<u>68,628</u>
Investing Activities		
Increase in loans to and equity investments in subsidiaries	(8,283)	(49,073)
Repayments of loans and equity investments by subsidiaries	86,917	4,434
Decrease in deferred costs	-	1,515
	<u>78,634</u>	<u>(43,124)</u>
Cash provided by (used in) investing activities	<u>78,634</u>	<u>(43,124)</u>
Financing Activities		
Increase in long-term debt	19,543	50,000
Decrease (increase) in financing costs	2,131	(235)
Sinking fund instalments	(4,540)	(4,540)
Decrease in short-term debt	(31,100)	(63,200)
Dividends paid	(54,060)	(20,560)
	<u>(68,026)</u>	<u>(38,535)</u>
Cash used in financing activities	<u>(68,026)</u>	<u>(38,535)</u>
Increase (decrease) in cash during the year	83,487	(13,031)
Cash position, beginning of year	<u>18,809</u>	<u>31,840</u>
Cash position, end of year	<u>\$ 102,296</u>	<u>\$ 18,809</u>

(See accompanying notes)

**SaskEnergy Incorporated -
Holdings Division
Notes to the Financial Statements
December 31, 2004**

1. Status of the Corporation

SaskEnergy Incorporated (SaskEnergy) is a Saskatchewan provincial Crown corporation operating under authority of *The SaskEnergy Act*.

By virtue of *The Crown Corporations Act, 1993*, SaskEnergy Incorporated has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC). Accordingly, the financial results of SaskEnergy Incorporated are included in the consolidated financial statements of CIC, a provincial Crown corporation.

As a provincial Crown corporation, SaskEnergy Incorporated and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

2. Basis of Presentation

There are two separate divisions (business units) within SaskEnergy Incorporated. These financial statements reflect only the results of operations of the division which holds interests in the subsidiaries. This division is referred to as the Holdings Division. The other division is referred to as the Distribution Division. Investments in shares of subsidiaries and equity advances to the Distribution Division are not consolidated but are recorded at cost which is not in accordance with generally accepted accounting principles. The financial statements of the Distribution Division are tabled in the Legislative Assembly.

These non-consolidated financial statements are prepared to facilitate tabling in the Legislative Assembly. All information pertinent to the resources and results of operations of the Corporation and its subsidiaries is available to CIC. Consolidated financial statements for the Corporation are presented to the Legislative Assembly.

As these financial statements have not been prepared for general purposes, some users may require consolidated financial information.

3. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles, except as noted above, applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. The following accounting policies are considered to be significant:

a. Equity advances to the Distribution Division

These advances are considered to be long-term equity investments by the Holdings Division and are therefore referred to as equity advances. The equity advances are initially recorded at cost. Earnings distributions from the Distribution Division are recognized in income as dividends when receivable.

**SaskEnergy Incorporated -
Holdings Division
Notes to the Financial Statements
December 31, 2004**

3. Summary of Significant Accounting Policies (continued)

b. Investments in wholly owned subsidiaries

Investments in wholly owned subsidiaries are accounted for on the cost method. Dividends from these subsidiaries are recognized as income when receivable.

c. Derivative instruments

The Corporation uses various derivative instruments to hedge its operating exposures to fluctuations in interest rates. For the purpose of hedging interest rates, the Corporation may use forward rate agreements, options, and interest rate swaps. A Corporate Derivatives Policy and specific hedging strategies establish the guidelines within which such instruments may be used. These policies require that SaskEnergy use derivatives instruments only to manage risks associated with transactions undertaken in the normal course of business.

Hedge accounting is used when there is a high degree of correlation between price movements in the derivative instrument and the item designated as being hedged. Accordingly, gains and losses are recognized in the same period as the hedged item is settled and are recorded in the statement of earnings. If correlation ceases, hedge accounting is terminated and future changes in the market value of the derivative instruments are recognized as gains or losses in the period of change.

The Corporation uses instruments to hedge the interest rate on anticipated borrowing requirements. For the purpose of hedging interest rates, the Corporation may use forward rate agreements, options, and interest rate swaps.

Derivative instruments that do not qualify for hedge accounting are recorded at fair value on a gross basis in the statement of financial position in accounts receivable or accounts payable as applicable. Gains and losses resulting from changes in fair value are recorded in the statement of earnings.

d. Deferred financing charges

Included in deferred financing charges are issue costs, discounts and premiums on the issue of long-term debt, and costs of terminating delayed start interest rate swaps relating to financing of debt. These deferred financing charges are amortized as part of interest expense over the term of the related debt on a straight-line basis.

**SaskEnergy Incorporated -
Holdings Division
Notes to the Financial Statements
December 31, 2004**

4. Change in Accounting Policy

Hedge Accounting

Effective, January 1, 2004, the Corporation commenced application of the new Canadian Institute of Chartered Accountants Accounting Guideline 13. The guideline requires identification, designation, documentation and effectiveness of hedging relationships be established at the inception of each hedge in order to apply hedge accounting. Hedge accounting is used when there is a high degree of correlation between price movements in the derivative financial instrument and the item designated as being hedged. Gains and losses are recognized in the same period as the hedged item is settled and are recorded in the statement of earnings and retained earnings. If correlation ceases, hedge accounting is terminated and future changes in the market value of the derivative instruments are recognized as gains or losses in the period of change. For those derivative instruments that existed at January 1, 2004, there was no material impact on these financial statements as a result of the adoption of Accounting Guideline 13.

5. Investments

The Holdings Division has made the following investments in and loans to its subsidiaries and the Distribution Division:

	2004	2003
	(thousands)	(thousands)
a. Loans receivable *	\$ 568,657	\$ 603,516
b. Equity investments		
Distribution Division	228,410	277,410
SaskEnergy International Incorporated	29,385	29,385
TransGas Limited	4,001	4,001
Bayhurst Gas Limited	1,061	1,061
SaskEnergy Nova Scotia Holdings Ltd.	4,089	2,029
Swan Valley Gas Corporation	3,166	1
Saskatchewan First Call Corporation	1	1
Many Islands Pipe Lines (Canada) Limited **	-	-
	270,113	313,888
Total Investments	\$ 838,770	\$ 917,404

All companies listed in 5(b) above are wholly owned subsidiaries of the Holdings Division.

* The terms and conditions on the loans receivable from TransGas Limited, Many Islands Pipe Lines (Canada) Limited and the Distribution Division are structured so that they reflect the same terms and conditions as the Holdings Division's long-term debt. The loans are net of sinking fund instalments received from these entities.

** The recorded cost of the Many Islands Pipe Lines (Canada) Limited shares is \$101 (2003 - \$101).

SaskEnergy Incorporated -
Holdings Division
Notes to the Financial Statements
December 31, 2004

6. Long-Term Debt

All of the long-term debt is owing to the Province of Saskatchewan's General Revenue Fund.

Years to Maturity	2004		2003	
	Principal Outstanding (thousands)	Average Fixed Interest Rate (per cent)	Principal Outstanding (thousands)	Average Fixed Interest Rate (per cent)
1 - 5	\$ 329,758	8.2	\$ 321,079	8.4
6 - 10	180,000	5.7	169,136	6.7
16 - 30	193,971	7.3	193,971	7.3
	<u>703,729</u>		<u>684,186</u>	
Less sinking fund equity	<u>(32,962)</u>		<u>(26,121)</u>	
	670,767		658,065	
Less due within one year	<u>(106,235)</u>		<u>(34,997)</u>	
	<u>\$ 564,532</u>		<u>\$ 623,068</u>	

a. Sinking funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund, SaskEnergy is required (on an annual basis) to invest an amount equal to one per cent of the related outstanding debt. These investments are referred to as sinking funds. These sinking funds are administered by Saskatchewan's Department of Finance. The investments held in these sinking funds are primarily Province of Saskatchewan debt instruments. The yield on these investments was 6.82 per cent for 2004 (5.20 per cent for 2003).

b. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

**SaskEnergy Incorporated -
Holdings Division
Notes to the Financial Statements
December 31, 2004**

6. Long-Term Debt (continued)

c. Principal repayments

Principal repayments and sinking fund instalments due in each of the next five years are as follows: (thousands)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Principal	\$ 101,195	\$ 66,597	\$ 47,705	\$ 75,126	\$ 39,136
Sinking fund instalments	<u>5,040</u>	<u>4,290</u>	<u>4,290</u>	<u>3,990</u>	<u>3,740</u>
	<u>\$ 106,235</u>	<u>\$ 70,887</u>	<u>\$ 51,995</u>	<u>\$ 79,116</u>	<u>\$ 42,876</u>

d. Interest expense

Interest expense was as follows:

	<u>2004</u>	<u>2003</u>
	<u>(thousands)</u>	
Interest on long-term debt	\$ 50,886	\$ 52,228
Interest on short-term debt	2,042	2,748
Amortization of deferred financing charges	1,035	1,046
Sinking fund earnings	<u>(2,301)</u>	<u>(1,174)</u>
	<u>\$ 51,662</u>	<u>\$ 54,848</u>

Cash interest paid during 2004 on long-term debt was \$51,254 thousand (2003 - \$52,441 thousand)

7. Equity Advances

The Holdings Division does not have share capital. However, the Holdings Division has received advances from CIC. The advances are considered to be an equity investment in the Holdings Division by CIC.

**SaskEnergy Incorporated -
Holdings Division
Notes to the Financial Statements
December 31, 2004**

8. Change in Non-Cash Working Capital

The net change in non-cash working capital related to operations was as follows:

	<u>2004</u>	<u>2003</u>
	(thousands)	
Prepaid expense	\$ (70)	\$ 982
Dividends receivable	20,287	(2,165)
Intercompany accounts receivable	552	(336)
Interest payable	(317)	203
	<u>\$ 20,452</u>	<u>\$ (1,316)</u>

9. Related Party Transactions

Included in these financial statements are income and expense amounts resulting from operating transactions conducted with subsidiary corporations, CIC and the Saskatchewan Department of Finance.

Account balances resulting from these transactions are included in the statement of financial position and are settled on normal trade terms. Amounts due to and from related parties are described separately in these financial statements and notes.

10. Financial Instruments

a. Fair value of financial instruments

The fair value of the Holding Division's financial instruments is listed below:

	<u>2004</u>		<u>2003</u>	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(thousands)			
Long-term loans receivable	\$ 607,310	\$ 680,775	\$ 636,666	\$ 731,044
Sinking fund equity payable	31,854	33,525	25,618	27,006
Long-term debt	703,729	802,784	684,186	779,890
Sinking fund equity receivable	32,962	34,692	26,121	27,536
Interest rate hedges owed to (by) Holdings Division				
- forward rate agreements	-	-	(6)	(145)

**SaskEnergy Incorporated -
Holdings Division
Notes to the Financial Statements
December 31, 2004**

10. Financial Instruments (continued)

The fair values of these instruments were based on the following:

- i. Long-term loans receivable - The present value of future cash flows discounted at the market rate for the equivalent Province of Saskatchewan debt instruments.
- ii. Long-term debt - The present value of future cash flows discounted at the market rate for the equivalent Province of Saskatchewan debt instruments.
- iii. Sinking fund equity payable - The fair value of the investments held in the sinking fund on behalf of the Distribution Division and subsidiaries as at year end.
- iv. Sinking fund equity receivable - Equivalent to the fair value of the sinking fund receivable from the Province of Saskatchewan as at year end.
- v. Interest rate hedges - Closing quotations from the counterparty as to the amount to settle the contract as at year end.

The carrying values of other financial instruments (dividends receivable, intercompany accounts receivable, short-term debt, interest payable and dividend payable) approximate fair value due to their relatively short term nature.

b. Credit risk

The Holdings Division has extended credit only to the Distribution Division and the subsidiary corporations listed in Note 5. The Holdings Division expects all amounts due to be paid. There were no credit losses in 2004.

11. Comparative Figures

Certain of the prior year amounts have been reclassified to conform to the current year's presentation.

TRANSGAS LIMITED

FINANCIAL STATEMENTS

December 31, 2004

Deloitte

Deloitte & Touche LLP
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Bank of Montreal Building
Regina SK S4P 3Z8
Canada

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Auditors' Report

To the Shareholder of TransGas Limited

We have audited the statement of financial position of TransGas Limited as at December 31, 2004 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan

February 8, 2005

TRANSGAS LIMITED

Statement of Financial Position

As at December 31
(thousands of dollars)

	2004	2003 (Restated)
Assets		
Current assets		
Cash	\$ -	\$ 30,979
Accounts receivable	9,246	8,668
Intercompany accounts receivable	2,922	2,885
Natural gas in storage held for resale	646	-
Inventories of supplies	883	371
	13,697	42,903
Property, plant and equipment (Note 4)	505,400	502,345
Natural gas in storage held for operations	20,234	20,199
Deferred charges (Note 5)	3,773	4,478
	<u>\$ 543,104</u>	<u>\$ 569,925</u>
Liabilities and Shareholder's Equity		
Current liabilities		
Bank indebtedness	\$ 12,196	\$ -
Accounts payable	17,134	24,560
Dividend payable	13,500	21,500
Intercompany accounts payable	12,249	12,700
Current portion of notes payable (Note 6)	92,308	19,750
	147,387	78,510
Asset retirement obligation (Note 7)	629	-
Notes payable (Note 6)	220,633	314,524
	<u>368,649</u>	<u>393,034</u>
Shareholder's equity		
Share capital (Note 8)	4,001	4,001
Retained earnings	170,454	172,890
	<u>174,455</u>	<u>176,891</u>
	<u>\$ 543,104</u>	<u>\$ 569,925</u>

Commitments (Note 9)

(See accompanying notes)

On behalf of the Board:



Director



Director

TRANSGAS LIMITED**Statement of Earnings and Retained Earnings**

Years ended December 31

(thousands of dollars)

	2004	2003 (Restated)
Revenue		
Transportation and storage	\$ 136,235	\$ 134,394
Revenue collected for municipalities (Note 10)	3,385	5,283
	<u>139,620</u>	<u>139,677</u>
Expenses		
Operating and maintenance	56,388	54,895
Interest (Note 6)	26,761	27,920
Amortization (Note 4)	23,945	23,110
Payments to municipalities (Note 10)	3,385	5,283
Saskatchewan taxes (Note 11)	2,377	2,229
	<u>112,856</u>	<u>113,437</u>
Net earnings	<u>26,764</u>	<u>26,240</u>
Retained earnings, beginning of year:		
As previously reported	171,918	188,192
Change in accounting policy (Note 3)	972	972
As restated	<u>172,890</u>	<u>189,164</u>
	199,654	215,404
Dividends	<u>(29,200)</u>	<u>(42,514)</u>
Retained earnings, end of year	<u>\$ 170,454</u>	<u>\$ 172,890</u>

(See accompanying notes)

TRANSGAS LIMITED

Statement of Cash Flows

Years ended December 31

(thousands of dollars)

	2004	2003 (Restated)
Operating Activities		
Net earnings	\$ 26,764	\$ 26,240
Add (deduct) items not requiring an outlay of cash		
Amortization of property, plant and equipment (Note 4)	23,945	23,110
Amortization of deferred charges (Note 5)	705	705
Sinking fund earnings (Note 6)	(1,584)	(839)
	<u>49,830</u>	<u>49,216</u>
Net change in non-cash working capital related to operations (Note 12)	(9,650)	16,622
Cash provided by operating activities	<u>40,180</u>	<u>65,838</u>
Investing Activities		
Net additions to property, plant, and equipment	(33,211)	(40,708)
Increase in customer capital contributions (Note 4)	6,840	6,104
Increase (decrease) in natural gas in storage held for operations	(35)	4,506
Sale of assets to an affiliate	-	34,198
Cash (used in) provided by investing activities	<u>(26,406)</u>	<u>4,100</u>
Financing Activities		
Increase in bank indebtedness	12,196	-
Dividends paid	(37,200)	(53,579)
Repayment of notes payable	(17,449)	-
Sinking fund instalments	(2,300)	(2,300)
Cash used in financing activities	<u>(44,753)</u>	<u>(55,879)</u>
(Decrease) increase in cash during the year	(30,979)	14,059
Cash position, beginning of year	<u>30,979</u>	<u>16,920</u>
Cash position, end of year	<u>\$ -</u>	<u>\$ 30,979</u>

(See accompanying notes)

TransGas Limited
Notes to the Financial Statements
December 31, 2004

1. Status of the Corporation

TransGas Limited was incorporated on March 30, 1988 under *The Saskatchewan Business Corporations Act*. TransGas Limited is a wholly owned subsidiary of SaskEnergy Incorporated (SEI), a Saskatchewan provincial Crown corporation, and therefore is not subject to Federal or Provincial income taxes in Canada.

The Corporation operates the major natural gas transmission pipeline system within Saskatchewan providing open access transmission services including gathering, compression and natural gas processing to end use customers, marketers and export producers. The Corporation has the legislated franchise for the transmission of natural gas within Saskatchewan. The Corporation also provides natural gas storage services.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. The following accounting policies are considered to be significant:

a. Inventories of supplies

Inventories of supplies consist primarily of general supplies used for construction and maintenance and are recorded at the lower of average cost or replacement cost.

b. Natural gas in storage held for operations

Natural gas in storage held for operations is stated at cost. Natural gas in storage held for operations is located within the Corporation's various underground natural gas storage facilities and is required for the ongoing operation of the storage facilities.

c. Property, plant and equipment

Property, plant and equipment is recorded at cost and includes all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment, is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in earnings for the current period.

TransGas Limited
Notes to the Financial Statements
December 31, 2004

2. Summary of Significant Accounting Policies (continued)

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows (in per cent):

Transmission and storage	2.5 to 2.6
Gathering, treatment and compression	2.5 to 3.5
Vehicles, equipment and other	4.0 to 33.0

Customer capital contributions relate to construction of new service connections. These contributions from customers are amortized on a straight-line basis over the estimated service life of the related asset.

d. Asset retirement obligation

In accordance with the new Canadian Institute of Chartered Accountants accounting standard for asset retirement obligations, the Corporation now records the costs associated with the future decommissioning of certain natural gas storage facilities. When a reasonable estimate is known, the fair value of these future costs is determined based on the period of decommissioning and on reclamation standards that meet or exceed regulatory requirements. The estimated costs are recorded as part of the related asset along with a related obligation.

Annually until decommissioning, the asset is depreciated over the estimated useful life of the related asset, and the obligation is increased using an interest-rate method and risk-free rate of return. In the year of decommissioning, the asset will be fully depreciated and the obligation will have increased to an amount equal to the estimated cost of decommissioning.

Due to the long-term nature of the assumptions made in the cost estimates, there could be a material adjustment to earnings in future reporting periods. Therefore, revisions will be made periodically to reflect more accurate estimates.

e. Revenue recognition

Revenue is recognized when transportation, transportation-related services and storage are provided to customers. An estimate of transportation, storage and related services rendered, but not billed as of December 31, is included in revenue.

f. Derivative instruments

On behalf of the Corporation, SEI uses various derivative instruments to hedge the Corporation's operating exposures to fluctuations in natural gas selling prices and foreign currency exchange. The results of these hedges are included in these financial statements under the same terms and conditions as contracted by SEI.

A Corporate Derivatives Policy and specific hedging strategies establish the guidelines within which such instruments may be used. These policies require that SEI use derivative instruments only to manage risks associated with transactions undertaken in the normal course of business.

2. Summary of Significant Accounting Policies (continued)

Hedge accounting is used when there is a high degree of correlation between price movements in the derivative financial instrument and the item designated as being hedged. Gains and losses are recognized in the same period as the hedged item is settled and are recorded in the statement of earnings and retained earnings. If correlation ceases, hedge accounting is terminated and future changes in the market value of the derivative instruments are recognized as gains or losses in the period of change.

i. Natural gas price risk management

The sale price of natural gas may be fixed within the contract, or referenced to a floating index price. When the price is referenced to a floating index price, financial instruments may be used as a hedge to fix the settlement amount. The types of financial instruments SEI may use to effect these hedges include natural gas price swaps, options, and swaptions traded on the over-the-counter market.

ii. Foreign currency exchange risk management

The Corporation uses derivative instruments to hedge the foreign currency exchange rate on foreign currency denominated transactions. For the purpose of hedging the exchange rate on transactions denominated in foreign currency, SEI may use currency forwards and currency options.

Derivative instruments that do not qualify for hedge accounting are recorded at fair value on a gross basis in the statement of financial position in accounts receivable or accounts payable as applicable. Gains and losses resulting from changes in fair value are recorded in the statement of earnings.

g. Employees' future benefits

The Corporation provides pension plans for all eligible employees, including a defined contribution pension plan and a defined benefit pension plan. The defined contribution pension plan is governed by *The Public Employees Pension Plan Act and Regulations*. The defined benefit pension plan is governed by *The Superannuation (Supplementary Provisions) Act and Regulations*, as well as *The Power Corporation Superannuation Act*.

Under both plans the Corporation's obligations are limited to making regular payments to the plans for current services. When made, these contributions are charged to expenses.

The cost of future retirement allowance benefits earned by employees is actuarially determined using the projected benefit method and management's best estimates. Past service costs are amortized on a straight-line basis over the estimated average remaining service period of active employees.

h. Deferred financing charges

Included in deferred financing charges are issue costs, discounts incurred on the issue of long-term debt, and costs of terminating delayed start interest rate swaps relating to financing of debt. These deferred financing charges are amortized as part of interest expense over the term of the related debt on a straight-line basis.

TransGas Limited
Notes to the Financial Statements
December 31, 2004

3. Changes in Accounting Policies

a. Asset retirement obligations

Effective January 1, 2004, the Corporation adopted the new Canadian Institute of Chartered Accountants accounting standard for asset retirement obligations which was required to be applied retroactively. The only assets affected by the retroactive application were those sold to an affiliate, Bayhurst Gas Limited effective January 1, 2003. The net sale price included the assumption of accounts payable relating to the estimated future costs associated with the permanent decommissioning of certain assets included in the sale.

The retroactive change in accounting policy impacted this accounts payable. Accordingly, the sale price of \$33,226 thousand for the assets transferred to Bayhurst Gas Limited on January 1, 2003 was increased by \$972 thousand to \$34,198 thousand.

The Corporation is required to record this accounting change retroactively with a restatement of prior periods to show what the effect would have been if the new policy had been followed in prior periods. The impact of the accounting change of \$972 thousand included a decrease in the intercompany payable from \$13,672 thousand to \$12,700 thousand, and an increase in the opening balance of retained earnings from \$188,192 thousand to \$189,164 thousand. The accounting policy change did not impact 2003 net earnings.

b. Hedge accounting

Effective, January 1, 2004, the Corporation commenced application of the Canadian Institute of Chartered Accountants Accounting Guideline 13. The guideline requires identification, designation, documentation and effectiveness of hedging relationships be established at the inception of each hedge in order to apply hedge accounting. Hedge accounting is used when there is a high degree of correlation between price movements in the derivative financial instrument and the item designated as being hedged. Gains and losses are recognized in the same period as the hedged item is settled and are recorded in the statement of earnings and deficit. If correlation ceases, hedge accounting is terminated and future changes in the market value of the derivative instruments are recognized as gains or losses in the period of change. For those derivative instruments that existed at January 1, 2004, there was no material impact on these financial statements as a result of the adoption of Accounting Guideline 13.

TransGas Limited
Notes to the Financial Statements
December 31, 2004

4. Property, Plant and Equipment

	2004			2003		
	(thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Transmission and storage	\$ 576,471	\$ 164,800	\$ 411,671	\$ 559,225	\$ 150,411	\$ 408,814
Gathering, treatment and compression	146,229	59,060	87,169	145,130	53,961	91,169
Vehicles, equipment and other	61,335	36,143	25,192	54,928	31,168	23,760
Construction in progress	26,357	-	26,357	17,912	-	17,912
	<u>\$ 810,392</u>	<u>\$ 260,003</u>	<u>550,389</u>	<u>\$ 777,195</u>	<u>\$ 235,540</u>	<u>541,655</u>
Less:						
Unamortized customer capital contributions			<u>44,989</u>			<u>39,310</u>
			<u>\$ 505,400</u>			<u>\$ 502,345</u>

a. Customer capital contributions

Customer capital contributions are required to be paid by customers to the Corporation to aid in construction of certain customer-specific facilities in accordance with established business policies:

	2004	2003
	(thousands)	
Balance, beginning of year	\$ 39,310	\$ 34,215
Contributions received	6,840	6,104
Contributions amortized	(1,161)	(1,009)
Balance, end of year	<u>\$ 44,989</u>	<u>\$ 39,310</u>

TransGas Limited
Notes to the Financial Statements
December 31, 2004

4. Property, Plant and Equipment (continued)

b. Amortization

	<u>2004</u>	<u>2003</u>
	(thousands)	
Amortization of property, plant and equipment	\$ 25,106	\$ 24,119
Amortization of customer capital contributions	<u>(1,161)</u>	<u>(1,009)</u>
	<u>\$ 23,945</u>	<u>\$ 23,110</u>

The composite rate of amortization (excluding the effect of customer capital contributions amortization) was 3.3 per cent during 2004 (3.2 per cent during 2003).

Included in transmission assets is an amount of \$2,904 thousand (2003 - \$3,002 thousand) received from SEI (an affiliate) for customer capital contributions in aid of construction of certain transmission facilities. Amortization of customer capital contributions related to this amount in 2004 was \$98 thousand (2003 - \$98 thousand).

5. Deferred Charges

Deferred charges include the following:

	<u>2004</u>	<u>2003</u>
	(thousands)	
Unamortized deferred financing charges	\$ 2,866	\$ 3,389
Unamortized past service costs	<u>907</u>	<u>1,089</u>
	<u>\$ 3,773</u>	<u>\$ 4,478</u>

TransGas Limited
Notes to the Financial Statements
December 31, 2004

6. Notes Payable

<u>Years to Maturity</u>	<u>2004</u>		<u>2003</u>	
	<u>Principal Outstanding</u> (thousands)	<u>Average Fixed Interest Rate</u> (per cent)	<u>Principal Outstanding</u> (thousands)	<u>Average Fixed Interest Rate</u> (per cent)
Notes payable to parent				
1 - 5	\$ 175,123	8.7	\$ 170,150	8.9
6 - 10	80,000	6.1	102,422	6.9
16 - 30	75,000	8.7	75,000	8.8
	<u>330,123</u>		<u>347,572</u>	
Less sinking fund equity	<u>(21,997)</u>		<u>(18,114)</u>	
	<u>308,126</u>		<u>329,458</u>	
Less due within one year	<u>(92,308)</u>		<u>(19,750)</u>	
	<u>215,818</u>		<u>309,708</u>	
Other debt	<u>4,815</u>	13.5	<u>4,816</u>	13.5
	<u>\$ 220,633</u>		<u>\$ 314,524</u>	

a. Sinking funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund to SEI, TransGas Limited is required (on an annual basis) to invest an amount equal to one per cent of the related outstanding debt. This investment is referred to as a sinking fund. These sinking funds are administered by Saskatchewan's Department of Finance on behalf of the parent.

The investments held in these sinking funds are primarily Province of Saskatchewan debt instruments. The yield on these investments was 6.82 per cent for 2004 (5.20 per cent for 2003).

b. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

TransGas Limited
Notes to the Financial Statements
December 31, 2004

6. Notes Payable (continued)

c. Principal repayments

Principal repayments and sinking fund instalments due in each of the next five years are as follows: (thousands)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Principal	\$ 90,008	\$ 23,832	\$ 10,144	\$ 28,718	\$ 22,422
Sinking fund instalments	<u>2,300</u>	<u>1,550</u>	<u>1,550</u>	<u>1,550</u>	<u>1,550</u>
	<u>\$ 92,308</u>	<u>\$ 25,382</u>	<u>\$ 11,694</u>	<u>\$ 30,268</u>	<u>\$ 23,972</u>

d. Interest expense

Interest expense was as follows:

	<u>2004</u>	<u>2003</u>
	(thousands)	
Interest on notes payable to parent	\$ 27,906	\$ 28,881
Interest on other debt	650	650
Amortization of deferred financing charges	524	524
Interest income on short term investments	(229)	(1,149)
Interest capitalized	(506)	(147)
Sinking fund earnings	<u>(1,584)</u>	<u>(839)</u>
	<u>\$ 26,761</u>	<u>\$ 27,920</u>

Cash interest paid during the year on notes payable to parent was \$28,118 thousand (2003 - \$28,881 thousand).

7. Asset Retirement Obligation

The Corporation has estimated the future costs of decommissioning certain natural gas storage facilities. These facilities will be decommissioned over the period of 2005 to 2014. The estimated future cash flows required to settle this obligation of \$858 thousand are discounted to \$629 thousand using the credit adjusted risk free rates ranging from 2.8 per cent to 6.8 per cent.

8. Share Capital

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. Thirty (30) shares (2003 - thirty) are issued and outstanding.

TransGas Limited
Notes to the Financial Statements
December 31, 2004

9. Financial Instruments and Commitments

a. Fair value of financial instruments

The fair value of the Corporation's financial instruments is listed below:

	2004		2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(thousands)			
Long-term debt	\$ 334,938	\$ 401,198	\$ 352,388	\$ 421,320
Sinking fund equity	21,997	23,151	18,114	19,094
Natural gas price hedges owed to TransGas				
- swaps	-	2,496	-	483

The fair values of the above instruments were based on the following:

- i. Long-term debt - The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.
- ii. Sinking fund equity - The market value of the investments held in the sinking fund as at year end.
- iii. Natural gas price swaps - The relevant index price in effect as at year end. Swap contracts have been entered into for the period January, 2005 to October, 2006.
- iv. Natural gas price options - The relevant index price in effect as at year end.

The carrying values of other financial instruments (accounts receivable, intercompany accounts receivable, accounts payable, dividend payable, intercompany accounts payable) approximate fair value due to their relatively short term nature.

b. Credit risk management

The Corporation provides credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial instruments described above. Excluding related parties (see Note 13), the Corporation has approximately 108 customers. There were no credit losses in 2004 (2003 - no credit losses).

- c. The Corporation has entered into forward purchase agreements to purchase 1.6 petajoules of natural gas during 2005.
- d. The Corporation has entered into natural gas price swaps with counterparties, to fix the purchase price for a total of 2.1 petajoules in 2005 and 2006. This natural gas will be purchased and held for operations.

TransGas Limited
Notes to the Financial Statements
December 31, 2004

9. Financial Instruments and Commitments (continued)

- e. The Corporation leases natural gas storage facilities near Regina, Saskatchewan. The base lease payments are as follows: (thousands)

<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Thereafter</u>	<u>Total</u>
\$195	\$199	\$204	\$210	\$215	\$332	\$1,355

10. Revenue Collected for and Paid to Municipalities

In accordance with the provisions of *The SaskEnergy Act*, the Corporation is required to collect from specific customers an amount based on the value of natural gas transported on their behalf. The Corporation in turn pays the revenue collected to certain municipalities. The revenue collected is classified as revenue collected for municipalities, and the expense paid is classified as payments to municipalities on the statement of earnings and retained earnings.

11. Saskatchewan Taxes

Saskatchewan taxes include the following:

	<u>2004</u>	<u>2003</u>
	(thousands)	(thousands)
Corporate capital tax	\$ 1,965	\$ 1,829
Mitigation payments and property taxes	412	400
	<u>\$ 2,377</u>	<u>\$ 2,229</u>

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

12. Net Change in Non-Cash Working Capital

	<u>2004</u>	<u>2003</u>
	(thousands)	(thousands)
Accounts receivable	\$ (578)	\$ 1,837
Intercompany accounts receivable	(37)	2,481
Natural gas in storage held for resale	(646)	-
Inventories of supplies	(512)	125
Accounts payable	(7,426)	12,636
Intercompany accounts payable	(451)	(457)
	<u>\$ (9,650)</u>	<u>\$ 16,622</u>

TransGas Limited
Notes to the Financial Statements
December 31, 2004

13. Related Party Transactions

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

- a. Transactions with SEI and its subsidiaries were as follows:

	<u>2004</u>	<u>2003</u>
	(thousands)	
Transportation and storage revenue	\$ 49,819	\$ 55,300
Operating and maintenance expenses	<u>15,529</u>	<u>15,251</u>
Interest expense	<u>26,848</u>	<u>28,572</u>

These items have been recorded at their exchange amounts.

- b. Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

These transactions, and amounts outstanding at year end, are as follows:

	<u>2004</u>	<u>2003</u>
	(thousands)	
Accounts receivable	\$ 238	\$ 10
Accounts payable	<u>114</u>	<u>150</u>
Revenue	<u>19,930</u>	<u>21,679</u>
Operating expenses	<u>5,366</u>	<u>6,378</u>
Customer capital contributions	<u>3,719</u>	<u>2,713</u>

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all of its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

TransGas Limited
Notes to the Financial Statements
December 31, 2004

14. Employees' Future Benefits

a. Pension plans

Substantially all employees of the Corporation are members of either a defined contribution or a defined benefit pension plan. During the year, the Corporation contributed \$736 thousand (2003 - \$752 thousand) on behalf of employees for current services.

b. Retiring allowance plan

The defined benefit retiring allowance plan for management employees and members of the Communication, Energy and Papers Union, Local 649 is as follows:

	2004	2003
	(thousands)	
Accrued benefit liability	\$ 3,165	\$ 3,080
Benefits paid during the year	64	90
Net expense	459	410

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit liability at December 31 are:

	2004	2003
Discount rate	4.50 per cent	5.00 per cent
Inflation rate	3.00 per cent	3.00 per cent
Average remaining employee service life	8.5 years	8.6 years

15. Comparative Figures

Certain of the prior year amounts have been reclassified to conform to the current year's presentation.

**MANY ISLANDS PIPE LINES
(CANADA) LIMITED**

FINANCIAL STATEMENTS

December 31, 2004

Deloitte

Deloitte & Touche LLP
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Bank of Montreal Building
Regina SK S4P 3Z8
Canada

Tel: (306) 565-5200
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Auditors' Report

To the Shareholder of Many Islands Pipe Lines (Canada) Limited

We have audited the statement of financial position of Many Islands Pipe Lines (Canada) Limited as at December 31, 2004 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
February 8, 2005

MANY ISLANDS PIPE LINES (CANADA) LIMITED

Statement of Financial Position

As at December 31
(thousands of dollars)

	2004	2003
Assets		
Current assets		
Accounts receivable	\$ 184	\$ 243
	184	243
Property, plant and equipment (Note 3)	17,491	18,317
	<u>\$ 17,675</u>	<u>\$ 18,560</u>
Liabilities and Shareholder's Equity		
Current liabilities		
Bank indebtedness	\$ 1,028	\$ 693
Accounts payable	141	157
Intercompany accounts payable	155	445
Dividend payable	-	193
Current portion of notes payable (Note 4)	535	609
	1,859	2,097
Notes payable to parent (Note 4)	10,457	11,015
	<u>12,316</u>	<u>13,112</u>
Shareholder's equity		
Share capital (Note 5)	-	-
Retained earnings	5,359	5,448
	5,359	5,448
	<u>\$ 17,675</u>	<u>\$ 18,560</u>

(See accompanying notes)

On behalf of the Board:



Director



Director

MANY ISLANDS PIPE LINES (CANADA) LIMITED

Statement of Earnings and Retained Earnings

Years ended December 31

(thousands of dollars)

	<u>2004</u>	<u>2003</u>
Revenue		
Transportation	<u>\$ 3,525</u>	<u>\$ 3,592</u>
Expenses		
Operating and maintenance	1,213	1,240
Interest (Note 4)	842	870
Amortization	653	650
Saskatchewan taxes (Note 6)	662	639
Loss on disposal of property, plant and equipment	<u>129</u>	<u>-</u>
	<u>3,499</u>	<u>3,399</u>
Net earnings	26	193
Retained earnings, beginning of year	5,448	5,448
Dividends	<u>(115)</u>	<u>(193)</u>
Retained earnings, end of year	<u>\$ 5,359</u>	<u>\$ 5,448</u>

(See accompanying notes)

MANY ISLANDS PIPE LINES (CANADA) LIMITED

Statement of Cash Flows

Years ended December 31

(thousands of dollars)

	<u>2004</u>	<u>2003</u>
Operating Activities		
Net earnings	\$ 26	\$ 193
Add (deduct) items not requiring an outlay of cash		
Amortization of		
property, plant and equipment (Note 3)	653	650
Loss on disposal of property, plant and equipment	129	-
Amortization of premium on note payable (Note 4)	(8)	(8)
Sinking fund earnings (Note 4)	(15)	(6)
	<u>785</u>	<u>829</u>
Net change in non-cash working capital		
related to operations (Note 7)	<u>(247)</u>	<u>320</u>
Cash provided by operating activities	<u>538</u>	<u>1,149</u>
Investing Activities		
Additions to property, plant, and equipment	(16)	(837)
Proceeds from sale of property, plant and equipment	<u>60</u>	<u>-</u>
Cash provided by (used in) investing activities	<u>44</u>	<u>(837)</u>
Financing Activities		
Increase in bank indebtedness	335	119
Dividends paid	(308)	(351)
Repayment of notes payable to parent	<u>(609)</u>	<u>(80)</u>
Cash used in financing activities	<u>(582)</u>	<u>(312)</u>
Increase in cash during the year	-	-
Cash position, beginning of year	-	-
Cash position, end of year	<u>\$ -</u>	<u>\$ -</u>

(See accompanying notes)

Many Islands Pipe Lines (Canada) Limited
Notes to the Financial Statements
December 31, 2004

1. Status of the Corporation

Many Islands Pipe Lines (Canada) Limited was incorporated on July 2, 1972 under *The Canada Business Corporations Act*. The Corporation is a wholly owned subsidiary of SaskEnergy Incorporated (SEI), a Saskatchewan provincial Crown corporation, and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by its Board of Directors and the management of its parent, SEI.

The Corporation owns and/or operates fourteen natural gas transmission pipelines: eleven Alberta-to-Saskatchewan interconnect pipelines, two United States-to-Saskatchewan interconnect pipelines, and one Manitoba-to-Saskatchewan interconnect pipeline. The pipelines are located mainly in Saskatchewan and either cross or terminate at the Alberta, Manitoba and United States borders. The Corporation is regulated by the National Energy Board.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. The following accounting policies are considered to be significant:

a. Property, plant and equipment

Property, plant and equipment is stated at cost and includes all direct costs plus overhead charges.

The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment, is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in earnings for the current period.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset as follows: (in per cent) transmission 2.6, compression 3.5, treatment 2.5, and other from 2.5 to 15.0.

b. Revenue recognition

Revenue is recognized when transportation services are provided to customers. An estimate of transportation services rendered, but not billed, is included in revenue.

c. Regulation

The business activities of the Corporation are regulated by the National Energy Board.

Many Islands Pipe Lines (Canada) Limited
Notes to the Financial Statements
December 31, 2004

3. Property, Plant and Equipment

	2004			2003		
	(thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Transmission	\$ 23,897	\$ 6,800	\$ 17,097	\$ 23,878	\$ 6,185	\$ 17,693
Compression	775	447	328	1,220	665	555
Treatment	14	6	8	14	6	8
Other	521	463	58	521	460	61
	<u>\$ 25,207</u>	<u>\$ 7,716</u>	<u>\$ 17,491</u>	<u>\$ 25,633</u>	<u>\$ 7,316</u>	<u>\$ 18,317</u>

The composite rate of amortization was 2.6 per cent during 2004 (2.6 per cent during 2003).

- a. On April 1, 1988, the Corporation acquired a pipeline from Consolidated Pipe Lines Company (CPL). The original cost of the pipeline to CPL was \$9,182 thousand and accumulated amortization of \$6,879 thousand had been recorded as of April 1, 1988. During 2004, the compressor unit included in the original purchase was sold to a non-related Canadian company for \$60 thousand plus applicable taxes. This compressor unit had an original cost of \$445 thousand and accumulated amortization of \$256 thousand.
- b. Pursuant to a National Energy Board (NEB) order dated April 11, 1991 the Corporation acquired a pipeline from its parent company, SaskEnergy Incorporated. Pursuant to a NEB order also dated April 11, 1991, SEI acquired the pipeline from Saskatchewan Power Corporation (SPC). The original cost of this pipeline to SPC was \$264 thousand and accumulated amortization of \$151 thousand had been recorded as of April 11, 1991.
- c. On December 9, 1993, the Corporation purchased a pipeline from an affiliated company, TransGas Limited, pursuant to a NEB order dated December 9, 1993. The original cost of the pipeline to TransGas Limited was \$2,895 thousand and accumulated amortization of \$62 thousand had been recorded as of December 9, 1993.

Many Islands Pipe Lines (Canada) Limited
Notes to the Financial Statements
December 31, 2004

4. Notes Payable to Parent

<u>Years to Maturity</u>	<u>2004</u>		<u>2003</u>	
	<u>Principal Outstanding (thousands)</u>	<u>Average Fixed Interest Rate (per cent)</u>	<u>Principal Outstanding (thousands)</u>	<u>Average Fixed Interest Rate (per cent)</u>
1 - 5	\$ 3,036	9.6	\$ 2,885	10.1
6 - 10	-	-	680	9.8
16 - 30	8,218	6.4	8,226	6.4
	<u>11,254</u>		<u>11,791</u>	
Less sinking fund equity	<u>(262)</u>		<u>(167)</u>	
	<u>10,992</u>		<u>11,624</u>	
Less due within one year	<u>(535)</u>		<u>(609)</u>	
	<u>\$ 10,457</u>		<u>\$ 11,015</u>	

a. Sinking funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund to SEI, the Corporation is required (on an annual basis) to invest an amount equal to one per cent of the related outstanding debt. These investments are referred to as sinking funds. These sinking funds are administered by Saskatchewan's Department of Finance on behalf of the parent.

b. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

c. Principal repayments

Principal repayments and sinking fund instalments due in each of the next five years are as follows: (thousands)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Principal	\$ 455	\$ 723	\$ 307	\$ 871	\$ 680
Sinking fund instalments	80	80	80	80	80
	<u>\$ 535</u>	<u>\$ 803</u>	<u>\$ 387</u>	<u>\$ 951</u>	<u>\$ 760</u>

Many Islands Pipe Lines (Canada) Limited
Notes to the Financial Statements
December 31, 2004

4. Notes Payable to Parent (continued)

d. Interest expense

Interest expense was as follows:

	<u>2004</u>	<u>2003</u>
	(thousands)	(thousands)
Interest on notes payable to parent	\$ 839	\$ 869
Interest on bank indebtedness	26	15
Sinking fund earnings	(15)	(6)
Amortization of premium	(8)	(8)
	<u>\$ 842</u>	<u>\$ 870</u>

- e. Cash interest paid during the year on notes payable to parent was \$847 thousand (2003 - \$869 thousand).

5. Share Capital

Authorized share capital consists of 50,000 Class A common shares without nominal or par value. One hundred and one shares (2003 - 101) are issued and outstanding. The shares were issued for nominal consideration of \$101.

6. Saskatchewan Taxes

Saskatchewan taxes include the following:

	<u>2004</u>	<u>2003</u>
	(thousands)	(thousands)
Property taxes	\$ 630	\$ 607
Corporate capital tax	32	32
	<u>\$ 662</u>	<u>\$ 639</u>

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

Many Islands Pipe Lines (Canada) Limited
Notes to the Financial Statements
December 31, 2004

7. Net Change in Non-Cash Working Capital

	2004	2003
	(thousands)	
Accounts receivable	\$ 59	\$ 69
Accounts payable	(16)	10
Intercompany accounts payable	(290)	241
	<u>\$ (247)</u>	<u>\$ 320</u>

8. Financial Instruments

a. Fair value of financial instruments

The fair value of the Corporation's financial instruments is listed below:

	2004		2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(thousands)			
Notes payable to parent	\$ 11,254	\$ 12,792	\$ 11,791	\$ 13,044
Sinking fund equity	262	276	167	176

The fair values of the above instruments were based on the following:

- i. Notes payable to parent - The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.
- ii. Sinking fund equity - The market value of the investments held in the sinking fund as at December 31, 2004.

The carrying values of other financial instruments (accounts receivable, accounts payable, intercompany accounts payable, dividend payable and bank indebtedness) approximate fair value due to their relatively short term nature.

b. Credit risk

The Corporation provides credit to its customers in the normal course of business. Excluding related parties (see Note 9), the Corporation has nine customers from which it earns approximately one-half of its revenue. The Corporation had a maximum credit exposure to any individual customer of approximately \$140 thousand. There were no credit losses in 2004.

Many Islands Pipe Lines (Canada) Limited
Notes to the Financial Statements
December 31, 2004

9. Related Party Transactions

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

- a. Transactions with SEI and its subsidiaries were as follows:

	<u>2004</u>	<u>2003</u>
	(thousands)	
Revenue	<u>\$ 1,729</u>	<u>\$ 1,777</u>
Operating and maintenance expenses	<u>1,140</u>	<u>1,166</u>
Interest expense	<u>818</u>	<u>857</u>

These items have been recorded at their exchange amounts.

- b. By virtue of the Corporation being a subsidiary of SEI, it is related to various Saskatchewan Crown corporations, departments, agencies, boards and commissions subject to joint control and significant influence by the Government of Saskatchewan.

These transactions include operating expense of \$38 thousand (2003 - \$49 thousand).

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all of its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

10. Comparative Figures

Certain of the prior year amounts have been reclassified to conform to the current year's presentation.



BAYHURST GAS LIMITED

FINANCIAL STATEMENTS

December 31, 2004

Auditors' Report

To the Shareholder of Bayhurst Gas Limited

We have audited the statement of financial position of Bayhurst Gas Limited as at December 31, 2004 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
February 8, 2005

BAYHURST GAS LIMITED

Statement of Financial Position

As at December 31
(thousands of dollars)

	2004	2003 (Restated)
Assets		
Current assets		
Cash	\$ -	\$ 3,386
Accounts receivable	889	831
Intercompany accounts receivable	375	773
Natural gas in storage held for resale	1,378	965
	<u>2,642</u>	<u>5,955</u>
Natural gas in storage held for resale	4,806	5,554
Property, plant and equipment (Note 4)	8,890	9,989
	<u>\$ 16,338</u>	<u>\$ 21,498</u>
Liabilities and Shareholder's Equity		
Current liabilities		
Bank indebtedness	\$ 7,405	\$ -
Accounts payable	486	369
Intercompany accounts payable	282	972
Dividend payable	4,722	16,816
	<u>12,895</u>	<u>18,157</u>
Asset retirement obligations (Notes 3 and 5)	2,382	2,401
	<u>15,277</u>	<u>20,558</u>
Shareholder's equity		
Share capital (Note 6)	1,061	1,061
Retained earnings (deficit)	-	(121)
	<u>1,061</u>	<u>940</u>
	<u>\$ 16,338</u>	<u>\$ 21,498</u>

Commitments (Note 7)

(See accompanying notes)

On behalf of the Board:



Director



Director

BAYHURST GAS LIMITED**Statement of Earnings and Retained Earnings**

Years ended December 31

(thousands of dollars)

	2004	2003 (Restated)
Revenue		
Net revenue from natural gas sales (Note 8)	\$ 26,865	\$ 30,614
Royalties	5,421	5,870
Service fee	692	939
	<u>32,978</u>	<u>37,423</u>
Expenses		
Operating and maintenance	2,464	3,282
Amortization (Note 4)	1,055	1,763
Interest (Note 9)	66	497
Saskatchewan taxes	6	-
	<u>3,591</u>	<u>5,542</u>
Net earnings	29,387	31,881
Deficit, beginning of year, as restated (Note 3)	(121)	-
Dividends	(29,266)	(32,002)
Retained earnings (deficit), end of year	<u>\$ -</u>	<u>\$ (121)</u>

(See accompanying notes)

BAYHURST GAS LIMITED

Statement of Cash Flows

Years ended December 31

(thousands of dollars)

	2004	2003 (Restated)
Operating Activities		
Net earnings	\$ 29,387	\$ 31,881
Add items not requiring an outlay of cash		
Amortization	1,055	1,763
Increase in long-term obligation	110	111
	<u>30,552</u>	<u>33,755</u>
Net change in non-cash working capital related to operations (Note 10)	102	18,454
Cash provided by operating activities	<u>30,654</u>	<u>52,209</u>
Investing Activities		
Additions to property, plant, and equipment	(147)	(238)
Increase in customer capital contributions	62	-
Acquisition of assets from affiliate	-	(33,226)
Cash used in investing activities	<u>(85)</u>	<u>(33,464)</u>
Financing Activities		
Dividends paid	(41,360)	(18,614)
Loan from parent	-	33,226
Repayment of loan from parent	-	(33,226)
Cash used in financing activities	<u>(41,360)</u>	<u>(18,614)</u>
Increase (decrease) in cash during the year	(10,791)	131
Cash position, beginning of year	3,386	3,255
Cash position, end of year	<u>\$ (7,405)</u>	<u>\$ 3,386</u>

(See accompanying notes)

Bayhurst Gas Limited
Notes to the Financial Statements
December 31, 2004

1. Status of the Corporation

Bayhurst Gas Limited was incorporated on March 30, 1988 under *The Saskatchewan Business Corporations Act*. The Corporation is a wholly owned subsidiary of SaskEnergy Incorporated (SEI), a Saskatchewan provincial Crown corporation and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by the Board of Directors and the management of its parent, SEI.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. The following accounting policies are considered to be significant:

a. Natural gas in storage held for resale

Natural gas in storage held for resale is stated at cost. The estimated amount to be sold in 2005 is classified as a current asset, with the remainder classified as non-current.

b. Property, plant and equipment

Property, plant and equipment is recorded at cost and includes all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment, is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in earnings for the current period.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows:

Transmission and storage	20 per cent to 50 per cent
Compression	3.5 per cent to 50 per cent

c. Asset retirement obligation

In accordance with the new Canadian Institute of Chartered Accountants accounting standard for asset retirement obligations, the Corporation now records the costs associated with the future decommissioning of certain natural gas storage facilities. When a reasonable estimate is known, the fair value of these future costs is determined based on the period of decommissioning and on reclamation standards that meet or exceed regulatory requirements. The estimated costs are recorded as part of the related asset along with a related obligation.

Bayhurst Gas Limited
Notes to the Financial Statements
December 31, 2004

2. Summary of Significant Accounting Policies (continued)

Annually until decommissioning, the asset is depreciated over the estimated useful life of the related asset, and the obligation is increased using an interest-rate method and risk-free rate of return. In the year of decommissioning, the asset will be fully depreciated and the obligation will have increased to an amount equal to the estimated cost of decommissioning.

Due to the long-term nature of the assumptions made in the cost estimates, there could be a material adjustment to earnings in future reporting periods. Therefore, revisions will be made periodically to reflect more accurate estimates.

d. Revenue recognition

For natural gas sales, revenue is recognized in the financial statements upon completion of the delivery of natural gas to the customer.

Royalty revenue is recognized when natural gas is sold from wells subject to royalty agreements. Royalty revenue, accounts receivable and accrued revenue as recognized in the financial statements are subject to measurement uncertainty. These amounts are based on the Corporation's best information and judgment.

The Corporation charges a service fee for natural gas loaned to an affiliate. The service fee revenue is recognized when the natural gas is made available to the affiliate.

e. Derivative instruments

On behalf of the Corporation, SEI uses various derivative instruments to hedge the Corporation's operating exposures to fluctuations in natural gas selling prices. The results of these hedges are included in these financial statements under the same terms and conditions as contracted by SEI.

A Corporate Derivatives Policy and specific hedging strategies establish the guidelines within which such instruments may be used. These policies require that SEI use derivative instruments only to manage risks associated with transactions undertaken in the normal course of business.

Hedge accounting is used when there is a high degree of correlation between price movements in the derivative instrument and the item designated as being hedged. Gains and losses are recognized in the same period as the hedged item is settled and are recorded in the statement of earnings and retained earnings. If correlation ceases, hedge accounting is terminated and future changes in the market value of the derivative instruments are recognized as gains or losses in the period of change.

The sale price of natural gas may be fixed within the contract, or referenced to a floating index price. When the price is referenced to a floating index price, derivative instruments may be used as a hedge to fix the settlement amount. The types of derivative instruments SEI may use to effect these hedges include natural gas price swaps, options, and swaptions traded on the over-the-counter market.

Bayhurst Gas Limited
Notes to the Financial Statements
December 31, 2004

2. Summary of Significant Accounting Policies (continued)

Derivative instruments that do not qualify for hedge accounting are recorded at fair value on a gross basis in the statement of financial position in accounts receivable or accounts payable as applicable. Gains and losses resulting from changes in fair value are recorded in the statement of earnings.

3. Changes in Accounting Policies

a. Asset retirement obligations

Until December 31, 2003, the Corporation recognized its responsibility for the estimated future costs associated with the permanent decommissioning of the Corporation's property, plant and equipment in accordance with the existing standards. The estimated cost of retiring these assets was being amortized on a straight-line basis over the expected useful life of the related assets. As at December 31, 2003, the Corporation had recorded a total provision of \$1,950 thousand for the future decommissioning of certain natural gas storage fields.

Effective January 1, 2004 the Corporation adopted the new Canadian Institute of Chartered Accountants accounting standard for asset retirement obligations which was required to be applied retroactively. The decommissioning costs referred to above, are now recognized in accordance with this new standard. The Corporation is required to record this accounting change retroactively with a restatement of prior periods to show what the effect would have been on the assets, liabilities, earnings and retained earnings if the new policy had been followed in prior periods. The impact of the accounting policy change was a \$121 thousand decrease in net earnings for 2003 and an increase in deficit as at December 31, 2003.

The impact of this accounting change is as follows:

<u>Year ended December 31</u>	<u>2003</u>
	<u>(thousands)</u>
Amortization	\$ 260
Operating and maintenance expense	(139)
Net earnings	(121)
Property, plant and equipment, net	1,302
Long-term obligations	(1,950)
Intercompany accounts payable	972
Asset retirement obligation	2,401
Deficit, end of year	(121)

Bayhurst Gas Limited
Notes to the Financial Statements
December 31, 2004

3. Changes in Accounting Policies (continued)

b. Hedge accounting

Effective, January 1, 2004, the Corporation commenced application of the Canadian Institute of Chartered Accountants Accounting Guideline 13. The guideline requires identification, designation, documentation and effectiveness of hedging relationships be established at the inception of each hedge in order to apply hedge accounting. Hedge accounting is used when there is a high degree of correlation between price movements in the derivative instrument and the item designated as being hedged. Gains and losses are recognized in the same period as the hedged item is settled and are recorded in the statement of earnings and deficit. If correlation ceases, hedge accounting is terminated and future changes in the market value of the derivative instruments are recognized as gains or losses in the period of change. For those derivative instruments that existed at January 1, 2004, there was no material impact on these financial statements as a result of adoption of Accounting Guideline 13.

4. Property, Plant and Equipment

	2004			(Restated) 2003		
	(thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Compression	\$ 5,630	\$ 935	\$ 4,695	\$ 5,629	\$ 566	\$ 5,063
Storage	4,012	1,236	2,776	3,917	787	3,130
Transmission	2,105	647	1,458	2,049	410	1,639
Construction in progress	23	-	23	157	-	157
	<u>\$ 11,770</u>	<u>\$ 2,818</u>	<u>8,952</u>	<u>\$ 11,752</u>	<u>\$ 1,763</u>	<u>9,989</u>
Less:						
Unamortized customer capital contributions			62			-
			<u>\$ 8,890</u>			<u>\$ 9,989</u>

The composite rate of amortization was 9.0 per cent during 2004 (2003 - 16.2 per cent).

5. Asset Retirement Obligations

The Corporation has estimated the future costs of decommissioning certain natural gas storage facilities. These facilities will be decommissioned by 2010. The estimated future cash flow required to settle this obligation of \$3,163 thousand is discounted to \$2,382 thousand using a credit adjusted risk free rate of 4.84 per cent.

Bayhurst Gas Limited
Notes to the Financial Statements
December 31, 2004

6. Share Capital

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. One hundred twenty (120) shares (2003 - 120 shares) are issued and outstanding.

7. Financial Instruments

a. Fair value of financial instruments

The Corporation has entered into natural gas price swaps, to fix the final selling price for the 4.8 petajoules of natural gas committed for sale during 2005 and 2006.

The fair value of the natural gas price swaps is \$1,862 thousand owing by the Corporation (2003 - \$1,517 thousand). The fair values of the natural gas price swaps were based on the relevant index price in effect as at year end. Swap contracts have been entered into for the period April, 2005 to October, 2006.

The carrying values of other financial instruments (accounts receivable, intercompany accounts receivable, accounts payable, intercompany accounts payable, and dividend payable) approximate fair value due to their relatively short term nature.

b. Credit risk management of natural gas

The Corporation receives monthly royalty revenue from certain natural gas properties. The largest receipts (approximately 74 per cent) are from one non-related company. The Corporation expects all future royalty payments to be received in accordance with the terms and conditions of the royalty agreements. There were no credit losses in 2004.

c. Letters of credit

The Corporation has posted a \$20 thousand letter of credit to Saskatchewan Industry and Resources (SIR). A letter of credit is required by SIR for all remitters of natural gas royalties.

Bayhurst Gas Limited
Notes to the Financial Statements
December 31, 2004

8. Net Revenue From Natural Gas Sales

Net revenue from natural gas sales consists of the following:

	<u>2004</u>	<u>2003</u>
	(thousands)	
Sales of natural gas	\$ 32,289	\$ 54,103
Less:		
Cost of natural gas sold	2,749	20,029
Royalties	<u>2,675</u>	<u>3,460</u>
Net revenue from natural gas sales	<u>\$ 26,865</u>	<u>\$ 30,614</u>

Of the \$32,289 thousand (2003 - \$54,103 thousand) in gross revenue from natural gas sales noted above, \$27,093 thousand (2003 - \$21,658 thousand) was generated from natural gas purchased from an affiliate at nil cost. The consideration was equal to the affiliate's carrying value.

9. Interest Expense

During the year, the Corporation made cash payments for interest on bank indebtedness to the parent of \$58 thousand (2003 - \$490 thousand).

10. Net Change in Non-Cash Working Capital

	<u>2004</u>	<u>2003</u>
	(thousands)	
Accounts receivable	\$ (58)	\$ 79
Intercompany accounts receivable	398	(448)
Natural gas in storage held for resale	335	18,455
Accounts payable	117	368
Intercompany accounts payable	<u>(690)</u>	<u>-</u>
	<u>\$ 102</u>	<u>\$ 18,454</u>

Bayhurst Gas Limited
Notes to the Financial Statements
December 31, 2004

11. Related Party Transactions

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

- a. Transactions with SEI and its subsidiaries were as follows:

	<u>2004</u>	<u>2003</u>
	(thousands)	
Net revenue from natural gas sales	\$ 226	\$ 18
Service fee	693	938
Operating and maintenance expenses	2,166	2,971
Natural gas in storage held for resale	157	-

These items have been recorded at their exchange amounts.

- b. Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

These transactions, and amounts outstanding at year end, are as follows:

	<u>2004</u>	<u>2003</u>
	(thousands)	
Natural gas in storage held for resale	\$ 401	\$ -
Royalties	2,675	3,460

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all of its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

12. Comparative Figures

Certain of the prior year amounts have been reclassified to conform to the current year's presentation.

**SWAN VALLEY GAS
CORPORATION**

FINANCIAL STATEMENTS

December 31, 2004

Auditors' Report

To the Shareholder of Swan Valley Gas Corporation

We have audited the statement of financial position of Swan Valley Gas Corporation as at December 31, 2004 and the statements of loss and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
February 8, 2005

SWAN VALLEY GAS CORPORATION

Statement of Financial Position

As at December 31

(thousands of dollars)

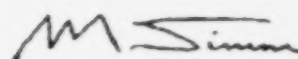
	2004	2003
Assets		
Current assets		
Cash	\$ 224	\$ -
Accounts receivable	247	371
Intercompany accounts receivable	175	49
Purchase gas variance account (Note 3)	-	79
	<u>646</u>	<u>499</u>
Property, plant and equipment (Note 4)	<u>1,854</u>	<u>1,906</u>
	<u>\$ 2,500</u>	<u>\$ 2,405</u>
Liabilities and Shareholder's Equity		
Current liabilities		
Bank indebtedness	\$ -	\$ 1,063
Accounts payable	66	51
Intercompany accounts payable	161	147
Current portion of note payable	-	20
	<u>227</u>	<u>1,281</u>
Note payable to parent (Note 5)	<u>-</u>	<u>1,981</u>
	<u>227</u>	<u>3,262</u>
Shareholder's equity		
Share capital (Note 6)	3,167	1
Deficit	(894)	(858)
	<u>2,273</u>	<u>(857)</u>
	<u>\$ 2,500</u>	<u>\$ 2,405</u>

(See accompanying notes)

On behalf of the Board:



Director



Director

SWAN VALLEY GAS CORPORATION

Statement of Loss and Deficit

Years ended December 31

(thousands of dollars)

	<u>2004</u>	<u>2003</u>
Revenue		
Natural gas sales	\$ 533	\$ 382
Cost of gas sold	<u>650</u>	<u>651</u>
Natural gas sales margin	(117)	(269)
Delivery revenue	<u>606</u>	<u>595</u>
Net revenue	<u>489</u>	<u>326</u>
Expenses		
Transportation	326	323
Operating and maintenance	123	265
Amortization (Note 4)	62	76
Interest (Note 5)	<u>14</u>	<u>142</u>
	<u>525</u>	<u>806</u>
Loss	(36)	(480)
Deficit, beginning of year	<u>(858)</u>	<u>(378)</u>
Deficit, end of year	<u>\$ (894)</u>	<u>\$ (858)</u>

(See accompanying notes)

SWAN VALLEY GAS CORPORATION

Statement of Cash Flows

Years ended December 31

(thousands of dollars)

	2004	2003
Operating Activities		
Loss	\$ (36)	\$ (480)
Add (deduct) items not requiring an outlay of cash		
Amortization of property, plant and equipment (Note 4)	226	226
Amortization of capital contributions (Note 4)	(164)	(150)
Sinking fund earnings (Note 5)	(1)	(2)
Amortization of premium on note payable (Note 5)	-	(2)
	<u>25</u>	<u>(408)</u>
Net change in non-cash working capital related to operations (Note 7)	<u>106</u>	<u>(166)</u>
Cash provided by (used in) operating activities	<u>131</u>	<u>(574)</u>
Investing Activities		
Additions to property, plant, and equipment	(24)	(23)
Proceeds from sale of property, plant and equipment	35	-
(Decrease) increase in capital contributions (Note 4)	<u>(20)</u>	<u>127</u>
Cash (used in) provided by investing activities	<u>(9)</u>	<u>104</u>
Financing Activities		
(Decrease) increase in bank indebtedness	(1,063)	490
Sinking fund instalment	-	(20)
Decrease in note payable to parent	(2,001)	-
Increase in share capital	<u>3,166</u>	<u>-</u>
Cash provided by financing activities	<u>102</u>	<u>470</u>
Increase in cash during the year	224	-
Cash position, beginning of year	<u>-</u>	<u>-</u>
Cash position, end of year	<u>\$ 224</u>	<u>\$ -</u>

(See accompanying notes)

Swan Valley Gas Corporation
Notes to the Financial Statements
December 31, 2004

1. Status of the Corporation

Swan Valley Gas Corporation (SVGC) was created on November 30, 1999 under *The Corporations Act of Manitoba*. The Corporation is a wholly owned subsidiary of SaskEnergy Incorporated (SEI), a Saskatchewan provincial Crown corporation and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by its Board of Directors and the management of its parent, SEI.

The Corporation operates natural gas transmission and distribution facilities in the Swan Valley region of Manitoba. The Corporation contracts with SEI and its affiliated corporations for its natural gas supply, transportation and storage requirements. The Corporation takes delivery of natural gas at the inlet to its facilities approximately one kilometre east of the Manitoba-Saskatchewan border.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. The following accounting policies are considered to be significant:

a. Property, plant and equipment

Property, plant and equipment is recorded at cost and includes all direct costs plus overhead charges and allowance for interest costs related to financing construction of the related assets.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows (in per cent):

General Plant	5.00
Service Lines and Meters	3.45
Pressure Regulation Stations	3.03
Main Lines	2.50

b. Capital contributions

Capital contributions relate to construction of new natural gas distribution facilities. These contributions are amortized to income on a straight-line basis over the estimated service life of the related asset.

c. Revenue recognition

Revenue is recognized when natural gas is delivered to customers. An estimate of gas delivered, but not billed, is included in revenue.

Swan Valley Gas Corporation
Notes to the Financial Statements
December 31, 2004

2. Summary of Significant Accounting Policies (continued)

d. Regulation

The business activities of the Corporation are regulated by the Manitoba Public Utilities Board (MPUB).

The Corporation follows generally accepted accounting principles for its regulated operations which may differ from those otherwise expected in non-regulated businesses. These differences occur when the regulatory agency exercises its statutory authority and renders specific accounting and other rate-making decisions. In addition to defining certain accounting requirements, the regulatory agency has jurisdiction over a number of other principal matters, which include but are not limited to, the rates to be charged for the sale and distribution of natural gas and approval and recovery of costs for major construction and operations.

3. Purchase Gas Variance Account

For rate setting purposes, the Corporation's approved selling price for natural gas is based on the principle that it neither profits from nor incurs a loss on sale. Therefore, the Corporation established a Purchase Gas Variance Account (PGVA) to accumulate differences between commodity revenue and the cost of gas sold. Subject to approval of the MPUB, balances accumulated in the PGVA are either recovered from or refunded to customers through future rates.

The PGVA has accumulated a balance of \$386 thousand to December 31, 2004 consisting of unrecovered transportation costs of \$386 thousand.

Due to lower than forecast natural gas sales over the past four years, the Corporation has been unable to recover all of the fixed transport component of its cost of gas sold. There is uncertainty as to whether the \$386 thousand will be recoverable within a reasonable timeframe from the existing customer base. Accordingly, during the year the Corporation increased the provision by \$117 thousand (\$269 thousand - 2003) and has reported this amount as cost of gas sold in 2004 with a corresponding reduction to the PGVA balance on the Statement of Financial Position. For rate setting purposes, these transportation costs totaling \$386 thousand can be recovered in future rates subject to approval by the MPUB.

Swan Valley Gas Corporation
Notes to the Financial Statements
December 31, 2004

4. Property, Plant and Equipment

	2004			2003		
	(thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Main lines	\$ 6,381	\$ 603	\$ 5,778	\$ 6,374	\$ 443	\$ 5,931
Service lines and meters	1,261	145	1,116	1,243	102	1,141
Stations	684	76	608	684	55	629
General plant	31	5	26	72	9	63
	<u>\$ 8,357</u>	<u>\$ 829</u>	<u>7,528</u>	<u>\$ 8,373</u>	<u>\$ 609</u>	<u>7,764</u>
Less:						
Unamortized capital contributions:			5,674			5,858
			<u>\$ 1,854</u>			<u>\$ 1,906</u>

a. Capital contributions

Capital contributions have been received from federal, provincial and municipal agencies to assist in the funding of capital expenditures. In addition, customers are assessed a capital contribution for installation of natural gas service. Capital contributions are as follows:

	2004	2003
	(thousands)	
Opening balance	\$ 5,858	\$ 5,881
Contributions (refunded) received		
Governments of Canada and Manitoba	(29)	118
Customers	9	9
Contributions amortized	<u>(164)</u>	<u>(150)</u>
Balance, end of year	<u>\$ 5,674</u>	<u>\$ 5,858</u>

Swan Valley Gas Corporation
Notes to the Financial Statements
December 31, 2004

4. Property, Plant and Equipment (continued)

b. Amortization

	2004	2003
	(thousands)	
Amortization of property, plant and equipment	\$ 226	\$ 226
Amortization of capital contributions	(164)	(150)
	<u>\$ 62</u>	<u>\$ 76</u>

The composite rate of amortization on property, plant and equipment (excluding the effect of capital contributions amortization) was 2.7 per cent during 2004 (2.7 per cent during 2003).

5. Note Payable to Parent

During the year, the Corporation repaid the note payable to parent.

Interest expense was as follows:

	2004	2003
	(thousands)	
Interest on notes payable to parent	\$ 23	\$ 128
Interest on bank indebtedness	1	24
Interest on cost of gas sold	(9)	(6)
Sinking fund earnings	(1)	(2)
Amortization of premium	-	(2)
	<u>\$ 14</u>	<u>\$ 142</u>

Cash interest paid during 2004 on the note payable to parent was \$23 thousand (2003 - \$128 thousand).

Swan Valley Gas Corporation
Notes to the Financial Statements
December 31, 2004

6. Share Capital

Authorized share capital consists of an unlimited number of common shares without nominal or par value. Issued share capital is as follows:

	<u>Shares</u>	<u>2004</u>	<u>2003</u>
		(thousands)	
Share capital, beginning of year	100	\$ 1	\$ 1
Issued during the year	316,550	3,166	-
Share capital, end of year	316,650	\$ 3,167	\$ 1

7. Net Change in Non-Cash Working Capital

	<u>2004</u>	<u>2003</u>
	(thousands)	
Accounts receivable	\$ 124	\$ (90)
Intercompany accounts receivable	(126)	(35)
Purchase gas variance account	79	2
Accounts payable	15	11
Intercompany accounts payable	14	(54)
	<u>\$ 106</u>	<u>\$ (166)</u>

8. Financial Instruments

- a. The carrying values of the corporation's financial instruments (accounts receivable, accounts payable, intercompany accounts receivable, and intercompany accounts payable) approximate fair value due to their relatively short term nature.
- b. Credit risk

The Corporation provides credit to its customers in the normal course of business. During 2004, the Corporation had one non-related customer from which it earned approximately 43 per cent of its revenue (2003 - 50 per cent). There were no credit losses in 2004.

Swan Valley Gas Corporation
Notes to the Financial Statements
December 31, 2004

9. Related Party Transactions

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

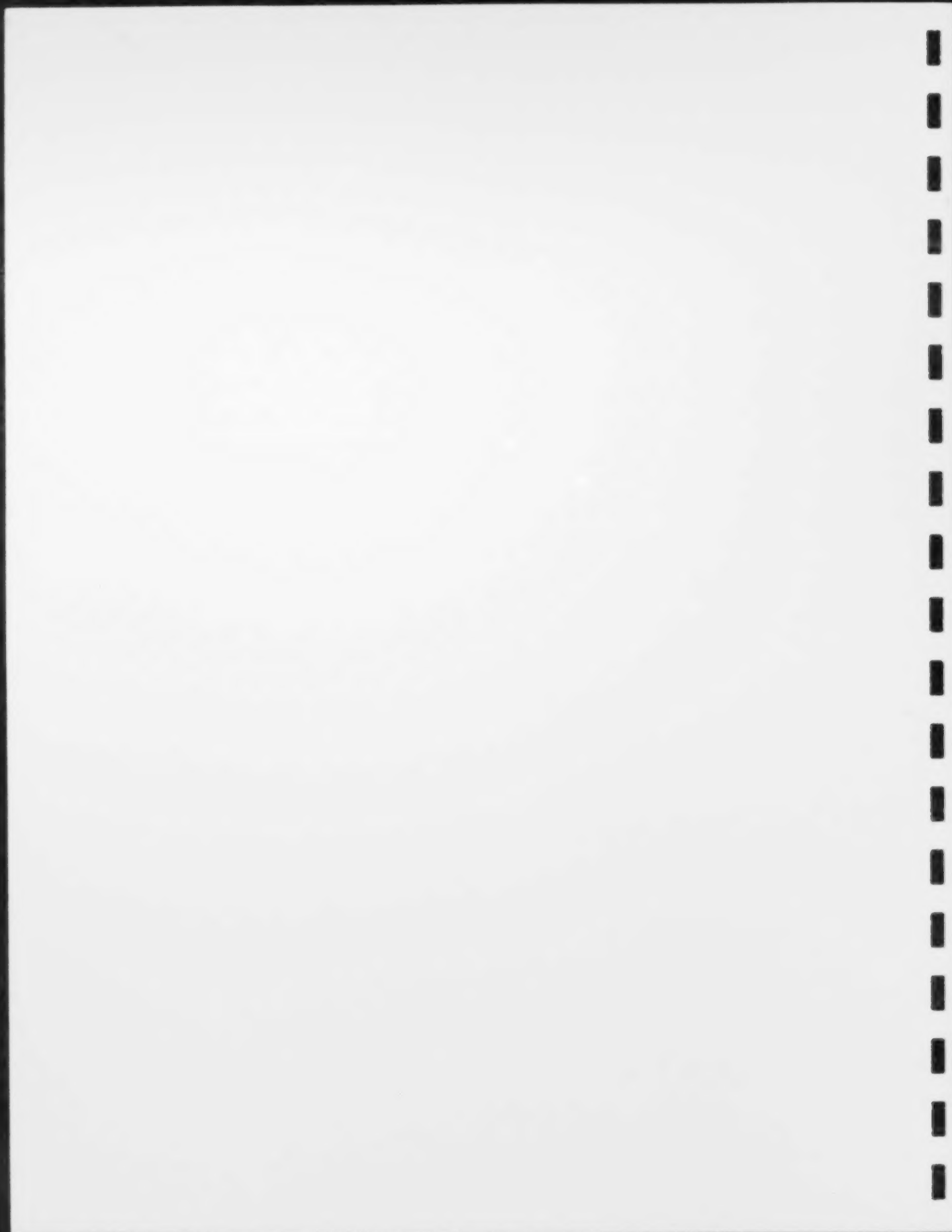
Transactions with SEI and its subsidiaries were as follows:

	<u>2004</u>	<u>2003</u>
	(thousands)	
Natural gas commodity purchases	\$ 623	\$ 664
Transportation expense	285	296
Sale of property, plant and equipment	35	-
Interest expense	23	128
Operating and maintenance expenses	-	127

The Corporation reimburses SEI for the cost of operating, maintenance and management services. For the current year, SEI reduced its charges to the Corporation by \$138 thousand from the charges approved by MPUB.

10. Comparative Figures

Certain of the prior year amounts have been reclassified to conform to the current year's presentation.



**SASKATCHEWAN FIRST CALL
CORPORATION**

FINANCIAL STATEMENTS

December 31, 2004

Deloitte

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900 - 2103 11th Ave
Bank of Montreal Building
Regina SK S4P 3Z8
Canada

Tel: (306) 565-5200
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Auditors' Report

To the Shareholder of Saskatchewan First Call Corporation

We have audited the statement of financial position of Saskatchewan First Call Corporation as at December 31, 2004 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
February 8, 2005

SASKATCHEWAN FIRST CALL CORPORATION

Statement of Financial Position

As at December 31

(thousands of dollars)

	2004	2003
Assets		
Current assets		
Accounts receivable	\$ 5	\$ 2
Intercompany accounts receivable	7	7
Prepaid expenses	13	13
	<u>25</u>	<u>22</u>
Property, plant and equipment (Note 3)	87	78
	<u>\$ 112</u>	<u>\$ 100</u>
Liabilities and Shareholder's Equity		
Current liabilities		
Bank indebtedness	\$ 46	\$ 145
Accounts payable	13	4
Intercompany accounts payable	48	27
	<u>107</u>	<u>176</u>
Shareholder's equity		
Share capital (Note 4)	1	1
Retained earnings (deficit)	4	(77)
	<u>5</u>	<u>(76)</u>
	<u>\$ 112</u>	<u>\$ 100</u>

(See accompanying notes)

On behalf of the Board:



Director



Director

SASKATCHEWAN FIRST CALL CORPORATION

Statement of Earnings and Retained Earnings

Years ended December 31

(thousands of dollars)

	<u>2004</u>	<u>2003</u>
Revenue		
Location services	<u>\$ 425</u>	<u>\$ 281</u>
Expenses		
Operating and maintenance	318	336
Amortization (Note 3)	22	20
Interest on bank indebtedness	<u>4</u>	<u>2</u>
	<u>344</u>	<u>358</u>
Net earnings (loss)	81	(77)
Deficit, beginning of year	<u>(77)</u>	<u>-</u>
Retained earnings (deficit), end of year	<u>\$ 4</u>	<u>\$ (77)</u>

(See accompanying notes)

SASKATCHEWAN FIRST CALL CORPORATION

Statement of Cash Flows

Years ended December 31

(thousands of dollars)

	<u>2004</u>	<u>2003</u>
Operating Activities		
Net earnings (loss)	\$ 81	\$ (77)
Add item not requiring an outlay of cash		
Amortization (Note 3)	<u>22</u>	<u>20</u>
	<u>103</u>	<u>(57)</u>
Net change in non-cash working capital		
related to operations (Note 5)	<u>27</u>	<u>(88)</u>
Cash provided by (used in) operating activities	<u>130</u>	<u>(145)</u>
Investing Activities		
Additions to property, plant, and equipment	<u>(31)</u>	<u>(1)</u>
Cash used in investing activities	<u>(31)</u>	<u>(1)</u>
Financing Activities		
(Decrease) increase in bank indebtedness	<u>(99)</u>	<u>145</u>
Cash (used in) provided by financing activities	<u>(99)</u>	<u>145</u>
Increase (decrease) in cash during the year	-	(1)
Cash position, beginning of year	-	1
Cash position, end of year	<u>\$ -</u>	<u>\$ -</u>

(See accompanying notes)

Saskatchewan First Call Corporation
Notes to the Financial Statements
December 31, 2004

1. Status of the Corporation

Saskatchewan First Call Corporation (First Call) was created on April 5, 2002 under *The Saskatchewan Business Corporations Act*. First Call is a wholly owned subsidiary of SaskEnergy Incorporated (SEI), a Saskatchewan provincial Crown corporation, and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by its Board of Directors and the management of its parent, SEI.

The Corporation has established a database for the location of certain underground utility facilities and oil, gas and other pipeline systems located in Saskatchewan. Primarily for safety reasons, First Call provides this service whereby landowners and other stakeholders may contact First Call to determine the location of underground facilities.

The Corporation recovers its costs of operation from subscriber companies participating in this locating service.

First Call commenced operations on January 1, 2003.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. The following accounting policies are considered to be significant:

Property, plant and equipment

Property, plant and equipment is recorded at cost and includes all direct costs plus overhead charges and allowance for interest costs related to financing construction of the related assets.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rate is as follows (in per cent):

Computer hardware and software	20.0
--------------------------------	------

Saskatchewan First Call Corporation
Notes to the Financial Statements
December 31, 2004

3. Property, Plant and Equipment

	<u>2004</u>			<u>2003</u>		
	(thousands)					
		Accumulated	Net		Accumulated	Net
	Cost	Amortization	Book	Cost	Amortization	Book
			Value			Value
Computer hardware and software	\$ 129	\$ 42	\$ 87	\$ 98	\$ 20	\$ 78

The composite rate of amortization was 20 per cent during 2004 (20 per cent during 2003).

4. Share Capital

Authorized share capital consists of an unlimited number of Class A voting common shares without nominal or par value. One hundred (100) shares are issued and outstanding.

5. Net Change in Non-Cash Working Capital

The net change in non-cash working capital related to operations is as follows:

	<u>2004</u>	<u>2003</u>
	(thousands)	
Accounts receivable	\$ (3)	\$ (2)
Intercompany accounts receivable	-	(7)
Prepaid expenses	-	(13)
Accounts payable	9	4
Intercompany accounts payable	21	(70)
	<u>\$ 27</u>	<u>\$ (88)</u>

Saskatchewan First Call Corporation
Notes to the Financial Statements
December 31, 2004

6. Related Party Transactions

- a) Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

Related party transactions with SEI and its subsidiaries were as follows:

	<u>2004</u>	<u>2003</u>
	(thousands)	
Location services revenue	\$ 335	\$ 267
Operating and maintenance expenses	<u>199</u>	<u>199</u>

During the year the Corporation received \$73 thousand (2003 – nil) of revenue from SEI and a \$76 thousand (2003 – nil) direct reimbursement of operating and maintenance expenses related to higher than expected start up costs.

- b) Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

These transactions, and amounts outstanding at year end, are as follows:

	<u>2004</u>	<u>2003</u>
	(thousands)	
Operating expenses	\$ 77	\$ 103
Revenue	<u>60</u>	-
Accounts receivable	<u>2</u>	-
Accounts payable	<u>7</u>	-

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all of its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

**SASKENERGY INTERNATIONAL
INCORPORATED**

***CONSOLIDATED
FINANCIAL STATEMENTS***

December 31, 2004

Auditors' Report

To the Shareholder of SaskEnergy International Incorporated

We have audited the consolidated statement of financial position of SaskEnergy International Incorporated as at December 31, 2004 and the consolidated statements of loss and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
February 8, 2005

SASKENERGY INTERNATIONAL INCORPORATED

Consolidated Statement of Financial Position

As at December 31
(thousands of dollars)

	2004	2003
Assets		
Current assets		
Cash	\$ -	\$ 98
Prepaid expenses	18	21
	<u>18</u>	<u>119</u>
Long-term investments (Note 3)	23,438	23,768
	<u>\$ 23,456</u>	<u>\$ 23,887</u>
Liabilities and Shareholder's Equity		
Current liabilities		
Bank indebtedness	\$ 494	\$ -
Accounts payable	120	103
Intercompany accounts payable	43	68
	<u>657</u>	<u>171</u>
Shareholder's equity		
Share capital (Note 4)	29,384	29,384
Foreign currency translation adjustment	(1,925)	(1,084)
Deficit	(4,660)	(4,584)
	<u>22,799</u>	<u>23,716</u>
	<u>\$ 23,456</u>	<u>\$ 23,887</u>

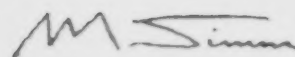
Commitments (Note 9)

(See accompanying notes)

On behalf of the Board:



Director



Director

SASKENERGY INTERNATIONAL INCORPORATED

Consolidated Statement of Loss and Deficit

Years ended December 31
(thousands of dollars)

	2004	2003
Revenue		
Consulting services	\$ -	\$ 43
Expenses		
Operating	582	614
Interest (Note 5)	5	99
	<u>587</u>	<u>713</u>
Loss before the following	(587)	(670)
Share of equity investments' net earnings (Note 3)	<u>511</u>	<u>202</u>
Loss	(76)	(468)
Deficit, beginning of year	<u>(4,584)</u>	<u>(4,116)</u>
Deficit, end of year	<u>\$ (4,660)</u>	<u>\$ (4,584)</u>

(See accompanying notes)

SASKENERGY INTERNATIONAL INCORPORATED

Consolidated Statement of Cash Flows

Years ended December 31

(thousands of dollars)

	2004	2003
Operating Activities		
Loss	\$ (76)	\$ (468)
Add (deduct) items not requiring an outlay of cash		
Share of equity investments' net earnings	(511)	(202)
	(587)	(670)
Net change in non-cash working capital related to operations (Note 6)	(5)	193
Cash used in operating activities	(592)	(477)
Investing Activities		
Increase in long-term investments	-	(8,078)
Financing Activities		
Increase (decrease) in bank indebtedness	494	(4,410)
Increase in share capital	-	13,063
Cash provided by financing activities	494	8,653
(Decrease) increase in cash during the year	(98)	98
Cash position, beginning of year	98	-
Cash position, end of year	\$ -	\$ 98

(See accompanying notes)

SaskEnergy International Incorporated
Notes to the Consolidated Financial Statements
December 31, 2004

1. Status of the Corporation

SaskEnergy International Incorporated, formerly Many Islands Natural Gas (Canada) Limited, was incorporated under *The Canada Business Corporations Act* on February 17, 1981 and commenced international operations on March 1, 1996. SaskEnergy International Incorporated is a wholly owned subsidiary of SaskEnergy Incorporated (SEI), a Saskatchewan provincial Crown corporation and therefore is not subject to Federal or Provincial income taxes in Canada.

The Corporation is dependent upon the financial support of SEI.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. The following accounting policies are considered to be significant:

a. Consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries, SaskEnergy Mexican Holdings Ltd. and the 100 per cent interest of SaskEnergy Chilean Holdings I Ltd. and SaskEnergy Chilean Holdings II Ltd. in SaskEnergy Chilean Holdings Limitada, a Chilean limited partnership.

b. Long-term investments

The Corporation accounts for its investments in Gas Sur S.A. and Igasamex USA Ltd. using the equity method.

c. Foreign currency translation adjustment

The Corporation's foreign investments are self-sustaining and the financial statements are translated from their functional currency into Canadian dollars using the current rate method. Translation adjustments resulting from changes in the exchange rate between the functional currency and the Canadian dollar are reflected in the foreign currency translation adjustment in Shareholder's Equity.

SaskEnergy International Incorporated
Notes to the Consolidated Financial Statements
December 31, 2004

2. Summary of Significant Accounting Policies (continued)

d. Employees' future benefits

The Corporation provides a defined contribution pension plan for all eligible employees. The defined contribution pension plan is governed by *The Public Employees Pension Plan Act and Regulations*.

Under the plan the Corporation's obligations are limited to making regular payments to the plans for current services. When made, these contributions are charged to expenses.

The cost of future retirement allowance benefits earned by employees is actuarially determined using the projected benefit method and management's best estimates. Past service costs are amortized on a straight-line basis over the estimated average remaining service period of active employees.

e. Revenue recognition

Revenue for consulting services is earned as services are performed.

3. Long-Term Investments

Long-term investments are as follows:

	2004		2003	
	Amount (thousands)	Per cent Ownership	Amount (thousands)	Per cent Ownership
Equity investment				
Gas Sur S.A. - total amount invested	\$ 13,784	30.1	\$ 13,784	30.1
Equity earnings - cumulative	485		104	
Currency translation adjustment - cumulative	(758)		(674)	
	<u>13,511</u>		<u>13,214</u>	
Igasamex USA LTD. - total amount invested	10,880	40.1	10,880	40.1
Equity earnings - cumulative	214		84	
Currency translation adjustment - cumulative	(1,167)		(410)	
	<u>9,927</u>		<u>10,554</u>	
	<u>\$ 23,438</u>		<u>\$ 23,768</u>	

SaskEnergy International Incorporated
Notes to the Consolidated Financial Statements
December 31, 2004

3. Long-Term Investments (continued)

a. Gas Sur S.A.

The Corporation purchased an equity interest in Gas Sur S.A., a Chilean natural gas distribution company.

The Corporation's share of the foreign currency translation adjustment for 2004 resulted in a \$84 thousand reduction in the balance of the investment in Gas Sur S.A. (2003 - \$66 thousand increase). The Corporation's 30 per cent share of Gas Sur S.A.'s 2004 net earnings was \$381 thousand (2003 - \$118 thousand).

The cost of the investment exceeds the Corporation's underlying share of the net book value of Gas Sur S.A. by approximately \$5,100 thousand (2003 - \$5,100 thousand).

b. Igasamex USA Ltd.

The Corporation purchased an equity interest in Igasamex USA Ltd., a limited liability partnership registered in the United States. Igasamex USA Ltd. owns a 100 per cent voting interest in Integrated Gas Services de Mexico, S. de R.L. de C.V., a corporation that provides natural gas transmission services to Mexico's industrial sector.

The Corporation's share of the foreign currency translation adjustment for 2004 resulted in a \$757 thousand reduction in the balance of the investment in Igasamex USA Ltd. (2003 - \$410 thousand reduction). The Corporation's 40.1 per cent share of Igasamex USA Ltd.'s 2004 net earnings was \$130 thousand (2003 - \$84 thousand).

The cost of the investment exceeds the Corporation's underlying share of the net book value of Igasamex USA Ltd. by approximately \$5,200 thousand (2003 - \$5,240 thousand).

4. Share Capital

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. Issued share capital is as follows:

	Shares	2004	2003
		(thousands)	
Share capital, beginning of year	2,938,432.0	\$ 29,384	\$ 16,321
Issued during the year for cash	-	-	13,063
Share capital, end of year	2,938,432.0	\$ 29,384	\$ 29,384

5. Interest Expense

During the year, the Corporation made cash payments for interest on bank indebtedness to the parent of \$5 thousand (2003 - \$138 thousand).

SaskEnergy International Incorporated
Notes to the Consolidated Financial Statements
December 31, 2004

6. Net Change in Non-Cash Working Capital

	2004	2003
	(thousands)	
Prepaid expenses	\$ 3	61
Intercompany accounts receivable	-	94
Accounts payable	17	(30)
Intercompany accounts payable	(25)	68
	<u>\$ (5)</u>	<u>\$ 193</u>

7. Financial Instruments

The carrying values of the Corporation's financial instruments (accounts receivable, bank indebtedness, accounts payable and intercompany accounts payable) approximate fair value due to their relatively short term nature.

8. Related Party Transactions

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

Transactions with SEI and its subsidiaries were as follows:

	2004	2003
	(thousands)	
Corporate expenses	\$ 98	\$ 98
Interest expense	\$ 5	\$ 99

9. Commitments

The Corporation, through its subsidiary SaskEnergy Mexican Holdings Ltd., has posted a \$4,008 thousand United States dollar denominated letter of credit in favour of Bank One, N.A., a United States bank. The letter of credit was used as collateral for the Corporation's share of a line of credit Bank One, N.A. has granted to Igasamex Bajio, S. de R.L. de C.V., a wholly owned subsidiary of Integrated Gas Services de Mexico, S. de R.L. de C.V.

Bank One, N.A. may draw upon this letter of credit if Igasamex USA Ltd. defaults under the terms of its loan agreement with Bank One, N.A.

SaskEnergy International Incorporated
Notes to the Consolidated Financial Statements
December 31, 2004

10. Employees' Future Benefits

a. Pension plans

All employees of the Corporation are members of the defined contribution pension plan. During the year, the Corporation contributed \$22 thousand (2003 - \$23 thousand) on behalf of employees for current services.

**SASKENERGY CHILEAN
HOLDINGS I LTD.**

***CONSOLIDATED
FINANCIAL STATEMENTS***

December 31, 2004

Auditors' Report

To the Shareholder of SaskEnergy Chilean Holdings I Ltd.

We have audited the consolidated statement of financial position of SaskEnergy Chilean Holdings I Ltd. as at December 31, 2004 and the consolidated statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
February 8, 2005

SASKENERGY CHILEAN HOLDINGS I LTD.

Consolidated Statement of Financial Position

As at December 31

(thousands of dollars)

	2004	2003
Assets		
Current assets		
Cash	\$ -	\$ 2
Long-term investment (Note 3)	13,369	13,072
	<u>\$ 13,369</u>	<u>\$ 13,074</u>
Liabilities and Shareholder's Equity		
Current liabilities		
Intercompany accounts payable	\$ -	\$ 2
Minority interest (Note 4)	13	13
Shareholder's equity		
Share capital (Note 5)	13,629	13,629
Foreign currency translation adjustment (Note 3)	(758)	(674)
Retained earnings	485	104
	<u>13,356</u>	<u>13,059</u>
	<u>\$ 13,369</u>	<u>\$ 13,074</u>

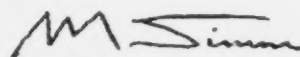
Commitments (Note 6)

(See accompanying notes)

On behalf of the Board:



Director



Director

SASKENERGY CHILEAN HOLDINGS I LTD.**Consolidated Statement of Earnings and Retained Earnings**

Years ended December 31

(thousands of dollars)

	<u>2004</u>	<u>2003</u>
Share of equity investment net earnings (Note 3)	<u>\$ 381</u>	<u>\$ 118</u>
Net earnings	381	118
Retained earnings, beginning of year	<u>104</u>	<u>(14)</u>
Retained earnings, end of year	<u>\$ 485</u>	<u>\$ 104</u>

(See accompanying notes)

SASKENERGY CHILEAN HOLDINGS I LTD.

Consolidated Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	2004	2003
Operating Activities		
Net earnings	\$ 381	\$ 118
Add (deduct) items not requiring an outlay of cash		
Share of equity investment net earnings	(381)	(118)
Cash provided by operating activities	-	-
Investing Activities		
Increase in long-term investment	-	(1,040)
Cash used in investing activities	-	(1,040)
Financing Activities		
Decrease in intercompany accounts payable	(2)	-
Minority interest (Note 4)	-	1
Proceeds from share issue (Note 5)	-	1,039
Cash used in financing activities	(2)	1,040
Decrease in cash during the year	(2)	-
Cash position, beginning of year	2	2
Cash position, end of year	\$ -	\$ 2

(See accompanying notes)

SaskEnergy Chilean Holdings I Ltd.
Notes to the Consolidated Financial Statements
December 31, 2004

1. Status of the Corporation

SaskEnergy Chilean Holdings I Ltd. was created on August 27, 1996 under *The Canada Business Corporations Act*. The Corporation is a wholly owned subsidiary of SaskEnergy International Incorporated. SaskEnergy International Incorporated is a wholly owned subsidiary of SaskEnergy Incorporated, a Saskatchewan provincial Crown corporation, and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by the Board of Directors and the management of SaskEnergy International Incorporated's parent, SaskEnergy Incorporated.

2. Summary of Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. The following accounting policies are considered to be significant:

The consolidated financial statements include the accounts of the Corporation and a Chilean limited partnership, SaskEnergy Chilean Holdings Limitada (99.9 per cent ownership interest). The 0.1 per cent minority interest in SaskEnergy Chilean Holdings Limitada is held by SaskEnergy Chilean Holdings II Ltd. (an affiliate).

a. Long-term investment

The Corporation accounts for its investment in Gas Sur S.A. using the equity method.

b. Foreign currency translation adjustment

The Corporation's foreign investment is self-sustaining and the financial statements are translated from Chilean pesos into Canadian dollars using the current rate method. Translation adjustments resulting from changes in the exchange rate between the Chilean peso and the Canadian dollar are reflected in the foreign currency translation adjustment in Shareholder's Equity.

SaskEnergy Chilean Holdings I Ltd.
Notes to the Consolidated Financial Statements
December 31, 2004

3. Long-Term Investment

The Corporation purchased an equity interest in Gas Sur S.A., a Chilean natural gas distribution company.

As at December 31, the 30 per cent equity investment in Gas Sur S.A. was as follows:

	2004	2003
	(thousands)	(thousands)
Equity investment, total amount invested	\$ 13,642	\$ 13,642
Equity earnings - cumulative	485	104
Currency translation adjustment - cumulative	(758)	(674)
	<u>\$ 13,369</u>	<u>\$ 13,072</u>

The Corporation's share of the foreign currency translation adjustment for 2004 resulted in a \$84 thousand reduction in the balance of the investment in Gas Sur S.A. (2003 - \$66 thousand increase). The Corporation's 30 per cent share of Gas Sur S.A.'s 2004 net earnings was \$381 thousand (2003 - \$118 thousand).

The cost of the investment exceeds the Corporation's underlying share of the net book value of Gas Sur S.A. by approximately \$5,100 thousand (2003 - \$5,100 thousand).

4. Minority Interest

The Corporation has a 99.9 per cent ownership interest in SaskEnergy Chilean Holdings Limitada. SaskEnergy Chilean Holdings II Ltd. (an affiliate) owns the remaining 0.1 per cent interest. Therefore, the minority interest is represented by SaskEnergy Chilean Holdings II Ltd.'s 0.1 per cent share interest in SaskEnergy Chilean Holdings Limitada.

As at December 31, the 0.1 per cent share minority interest was as follows:

	2004	2003
	(thousands)	(thousands)
Minority interest, beginning of year	\$ 13	\$ 12
Increase in investment during the year	-	1
Minority interest, end of year	<u>\$ 13</u>	<u>\$ 13</u>

SaskEnergy Chilean Holdings I Ltd.
Notes to the Consolidated Financial Statements
December 31, 2004

5. Share Capital

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. Issued share capital is as follows:

	<u>Shares</u>	<u>2004</u>	<u>2003</u>
		(thousands)	
Share capital, beginning of year	1,362,867.9	\$ 13,629	\$ 12,590
Issued during the year	-	-	1,039
Share capital, end of year	<u>1,362,867.9</u>	<u>\$ 13,629</u>	<u>\$ 13,629</u>

6. Commitments

SaskEnergy Incorporated has granted a guarantee related to certain obligations established under the Gas Sur S.A. Shareholders' Agreement. The guarantee is expressly limited to \$5,000 thousand United States dollars.

**SASKENERGY CHILEAN
HOLDINGS II LTD.**

FINANCIAL STATEMENTS

December 31, 2004

Deloitte

Deloitte & Touche LLP
900 - 2103 11th Ave
Bank of Montreal Building
Regina SK S4P 3Z8
Canada

Tel: (306) 565-5200
Fax: (306) 757-4753
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Auditors' Report

To the Shareholder of SaskEnergy Chilean Holdings II Ltd.

We have audited the statement of financial position of SaskEnergy Chilean Holdings II Ltd. as at December 31, 2004 and the statement of cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
February 8, 2005

SASKENERGY CHILEAN HOLDINGS II LTD.

Statement of Financial Position

As at December 31

(thousands of dollars)

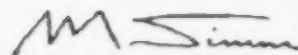
	<u>2004</u>	<u>2003</u>
Assets		
Current assets		
Long-term investment (Note 3)	<u>\$ 13</u>	<u>\$ 13</u>
Shareholder's Equity		
Share capital (Note 4)	<u>\$ 13</u>	<u>\$ 13</u>

(See accompanying notes)

On behalf of the Board:



Director



Director

SASKENERGY CHILEAN HOLDINGS II LTD.

Statement of Cash Flows

Years ended December 31

(thousands of dollars)

	<u>2004</u>	<u>2003</u>
Investing Activities		
Increase in long-term investment	<u>\$ -</u>	<u>\$ (1)</u>
Cash used in investing activities	<u>-</u>	<u>(1)</u>
Financing Activities		
Proceeds from share issue	<u>-</u>	<u>1</u>
Cash provided by financing activities	<u>-</u>	<u>1</u>
Increase in cash during the year	<u>-</u>	<u>-</u>
Cash position, beginning of year	<u>-</u>	<u>-</u>
Cash position, end of year	<u>\$ -</u>	<u>\$ -</u>

(See accompanying notes)

SaskEnergy Chilean Holdings II Ltd.
Notes to the Financial Statements
December 31, 2004

1. Status of the Corporation

SaskEnergy Chilean Holdings II Ltd. was created on June 4, 1997 under *The Canada Business Corporations Act*. The Corporation is a wholly owned subsidiary of SaskEnergy International Incorporated. SaskEnergy International Incorporated is a wholly owned subsidiary of SaskEnergy Incorporated, a Saskatchewan provincial Crown corporation, and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by the Board of Directors and the management of SaskEnergy International Incorporated's parent, SaskEnergy Incorporated.

During the year the Corporation had no revenue or expenses, and accordingly a statement of earnings is not included.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. The following accounting policy is considered to be significant:

Long-term investment

The Corporation accounts for its investment in SaskEnergy Chilean Holdings Limitada using the cost method (0.1 per cent ownership interest as at December 31, 2004 and December 31, 2003).

3. Long-Term Investment

The Corporation holds a 0.1 per cent interest in SaskEnergy Chilean Holdings Limitada with SaskEnergy Chilean Holdings I Ltd. holding the remaining 99.9 per cent interest. The cost of the Corporation's investment in SaskEnergy Chilean Holdings Limitada is \$13.6 thousand as at December 31, 2004 (2003 - \$13.6 thousand).

4. Share Capital

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. Issued share capital is as follows:

	Shares	2004	2003
		(thousands)	
Share capital, beginning of year	1,365.2	\$ 13	\$ 12
Issued during the year	-		1
Share capital, end of year	1,365.2	\$ 13	\$ 13



**SASKENERGY CHILEAN
HOLDINGS LIMITADA**

FINANCIAL STATEMENTS

December 31, 2004

Deloitte

Deloitte & Touche LLP
900 - 2103 11th Ave
Bank of Montreal Building
Regina SK S4P 3Z8
Canada

Tel: (306) 565-5200
Fax: (306) 757-4753
www.deloitte.ca

Auditors' Report

To the Partners of SaskEnergy Chilean Holdings Limitada

We have audited the statement of financial position of SaskEnergy Chilean Holdings Limitada as at December 31, 2004 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the limited partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the limited partnership as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
February 8, 2005

SASKENERGY CHILEAN HOLDINGS LIMITADA

Statement of Financial Position

As at December 31

(thousands of dollars)

	<u>2004</u>	<u>2003</u>
Assets		
Long-term investment (Note 3)	<u>\$ 13,369</u>	<u>\$ 13,072</u>
Partnership Equity		
Partnership contributions (Note 3)	13,642	13,642
Retained earnings (Note 3)	485	104
Foreign currency translation adjustment (Note 3)	<u>(758)</u>	<u>(674)</u>
	<u>\$ 13,369</u>	<u>\$ 13,072</u>

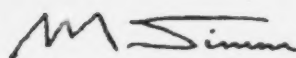
Commitments (Note 5)

(See accompanying notes)

On behalf of the Board:



Director



Director

SASKENERGY CHILEAN HOLDINGS LIMITADA

Statement of Earnings and Retained Earnings

Years ended December 31

(thousands of dollars)

	<u>2004</u>	<u>2003</u>
Share of equity investment net earnings (Note 3)	<u>\$ 381</u>	<u>\$ 118</u>
Net earnings	381	118
Retained earnings, beginning of year	<u>104</u>	<u>(14)</u>
Retained earnings, end of year	<u>\$ 485</u>	<u>\$ 104</u>

(See accompanying notes)

SASKENERGY CHILEAN HOLDINGS LIMITADA

Statement of Cash Flows

Years ended December 31

(thousands of dollars)

	<u>2004</u>	<u>2003</u>
Operating Activities		
Net earnings	\$ 381	\$ 118
Deduct item not requiring an outlay of cash		
Share of equity investment net earnings	<u>(381)</u>	<u>(118)</u>
Cash provided by operating activities	<u>-</u>	<u>-</u>
Investing Activities		
Increase in long-term investment	<u>-</u>	<u>(1,040)</u>
Cash used in investing activities	<u>-</u>	<u>(1,040)</u>
Financing Activities		
Equity contributions from partners	<u>-</u>	<u>1,040</u>
Cash provided by financing activities	<u>-</u>	<u>1,040</u>
Increase in cash during the year	-	-
Cash position, beginning of year	<u>-</u>	<u>-</u>
Cash position, end of year	<u>\$ -</u>	<u>\$ -</u>

(See accompanying notes)

SaskEnergy Chilean Holdings Limitada
Notes to the Financial Statements
December 31, 2004

1. Status of the Limited Partnership

SaskEnergy Chilean Holdings Limitada was established on December 16, 1998 as a Chilean limited partnership owned by two Canadian corporations – SaskEnergy Chilean Holdings I Ltd. and SaskEnergy Chilean Holdings II Ltd. The Canadian corporations are wholly owned subsidiaries of SaskEnergy International Incorporated. SaskEnergy International Incorporated is a wholly owned subsidiary of SaskEnergy Incorporated, a Saskatchewan provincial Crown corporation.

SaskEnergy Chilean Holdings I Ltd. and SaskEnergy Chilean Holdings II Ltd. have 99.9 per cent and 0.1 per cent respective ownership interests in the limited partnership. The amounts of net earnings or loss of the partnership for the fiscal period was attributed to the partners and included in their income for taxation purposes.

The affairs of the limited partnership are managed by the Board of Directors and the management of SaskEnergy International Incorporated's parent, SaskEnergy Incorporated.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. The following accounting policies are considered to be significant:

a. Long-term investment

The limited partnership accounts for its investment in Gas Sur S.A. by the equity method.

b. Foreign currency translation adjustment

The limited partnership's foreign investment is self-sustaining and the financial statements are translated from Chilean pesos to Canadian dollars using the current rate method. Translation adjustments resulting from changes in the exchange rate between the Chilean peso and the Canadian dollar are reflected as a foreign currency translation adjustment in Partnership Equity.

SaskEnergy Chilean Holdings Limitada
Notes to the Financial Statements
December 31, 2004

3. Long-Term Investment

The limited partnership purchased an equity interest in Gas Sur S.A., a Chilean natural gas distribution company.

As at December 31, the 30 per cent equity investment in Gas Sur S.A. was as follows:

	2004	2003
	(thousands)	
Equity investment, total amount invested	\$ 13,642	\$ 13,642
Equity earnings - cumulative	485	104
Currency translation adjustment - cumulative	(758)	(674)
	<u>\$ 13,369</u>	<u>\$ 13,072</u>

The cost of the investment exceeds the limited partnership's underlying share of the net book value of Gas Sur S.A. by approximately \$5,100 thousand (2003 - \$5,100 thousand).

4. Partnership Equity

	2004			
	SaskEnergy Chilean Holdings I Ltd. 99.9 per cent	SaskEnergy Chilean Holdings II Ltd. 0.1 per cent	Total	2003
	(thousands)			
Partnership equity, beginning of year	\$ 13,059	\$ 13	\$ 13,072	\$ 11,848
Net earnings	381	-	381	118
Foreign currency translation adjustment	(84)	-	(84)	66
Equity contributions	-	-	-	1,040
Partnership equity, end of year	<u>\$ 13,356</u>	<u>\$ 13</u>	<u>\$ 13,369</u>	<u>\$ 13,072</u>

5. Commitments

SaskEnergy Incorporated has granted a guarantee related to certain obligations established under the Gas Sur S.A. Shareholders' Agreement. The guarantee is expressly limited to \$5,000 thousand United States dollars.



**SASKENERGY MEXICAN
HOLDINGS LTD.**

FINANCIAL STATEMENTS

December 31, 2004

Deloitte

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Bank of Montreal Building
Regina SK S4P 3Z6
Canada

Tel: (306) 565-5200
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Auditors' Report

To the Shareholder of SaskEnergy Mexican Holdings Ltd.

We have audited the statement of financial position of SaskEnergy Mexican Holdings Ltd. as at December 31, 2004 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2004 and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
February 8, 2005

SASKENERGY MEXICAN HOLDINGS LTD.

Statement of Financial Position

As at December 31

(thousands of dollars)

	2004	2003
Assets		
Long-term investment (Note 3)	\$ 9,788	\$ 10,415
Liabilities and Shareholder's Equity		
Bank indebtedness	\$ -	\$ -
Shareholder's equity		
Share capital (Note 4)	10,741	10,741
Foreign currency translation adjustment	(1,167)	(410)
Retained earnings	214	84
	9,788	10,415
	\$ 9,788	\$ 10,415

Commitments (Note 5)

(See accompanying notes)

On behalf of the Board:



Director



Director

SASKENERGY MEXICAN HOLDINGS LTD.
Statement of Earnings and Retained Earnings

Years ended December 31
(thousands of dollars)

	<u>2004</u>	<u>2003</u>
Share of equity investment net earnings (Note 3)	<u>\$ 130</u>	<u>\$ 84</u>
Net earnings	<u>130</u>	<u>84</u>
Retained earnings, beginning of year	<u>84</u>	<u>-</u>
Retained earnings, end of year	<u>\$ 214</u>	<u>\$ 84</u>

(See accompanying notes)

SASKENERGY MEXICAN HOLDINGS LTD.

Statement of Cash Flows

Years ended December 31

(thousands of dollars)

	<u>2004</u>	<u>2003</u>
Operating Activities		
Net earnings	\$ 130	\$ 84
Add item not requiring an outlay of cash		
Share of equity investment net earnings	<u>(130)</u>	<u>(84)</u>
Cash provided by operating activities	<u>-</u>	<u>-</u>
Investing Activities		
Increase in long-term investment	<u>-</u>	<u>(7,023)</u>
Cash used in investing activities	<u>-</u>	<u>(7,023)</u>
Financing Activities		
Proceeds from share issue (Note 4)	-	7,023
Decrease in intercompany accounts receivable	-	8
Decrease in bank indebtedness	<u>-</u>	<u>(8)</u>
Cash provided by financing activities	<u>-</u>	<u>7,023</u>
Increase in cash during the year	-	-
Cash position, beginning of year	<u>-</u>	<u>-</u>
Cash position, end of year	<u>\$ -</u>	<u>\$ -</u>

(See accompanying notes)

SaskEnergy Mexican Holdings Ltd.
Notes to the Financial Statements
December 31, 2004

1. Status of the Corporation

SaskEnergy Mexican Holdings Ltd. was incorporated on November 15, 2001 under *The Canada Business Corporations Act* and is a wholly owned subsidiary of SaskEnergy International Incorporated. SaskEnergy International Incorporated is a wholly owned subsidiary of SaskEnergy Incorporated, a Saskatchewan provincial Crown corporation, and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by the Board of Directors and the management of SaskEnergy International Incorporated's parent, SaskEnergy Incorporated.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. The following accounting policies are considered to be significant:

a. Long-term investment

The Corporation accounts for its investment in Igasamex USA Ltd. using the equity method.

b. Foreign currency translation adjustment

The Corporation's foreign investment is self-sustaining and the financial statements are translated from United States dollars into Canadian dollars using the current rate method. Translation adjustments resulting from changes in the exchange rate between the United States dollar and the Canadian dollar are reflected in the foreign currency translation adjustment in Shareholder's Equity.

3. Long-Term Investment

The Corporation purchased an equity interest in Igasamex USA Ltd., a limited liability partnership registered in the United States. Igasamex USA Ltd. owns a 100 per cent voting interest in Integrated Gas Services de Mexico, S. de R.L. de C.V., a corporation that provides natural gas transmission services to Mexico's industrial sector.

SaskEnergy Mexican Holdings Ltd.
Notes to the Financial Statements
December 31, 2004

3. Long-Term Investment (continued)

As at December 31, the equity investment in Igasamex USA Ltd. was as follows:

	2004		2003	
	Amount (thousands)	Per cent Ownership	Amount (thousands)	Per cent Ownership
Equity investment - total amount invested	\$ 10,741	40.1	\$ 10,741	40.1
Equity earnings - cumulative	214		84	
Currency translation adjustment - cumulative	(1,167)		(410)	
	<u>\$ 9,788</u>		<u>\$ 10,415</u>	

The Corporation's share of the foreign currency translation adjustment for 2004 resulted in a \$757 thousand reduction in the balance of the investment in Igasamex USA Ltd. (2003 - \$410 thousand reduction). The Corporation's 40.1 per cent share of Igasamex USA Ltd.'s 2004 net earnings was \$130 thousand (2003 - \$84 thousand).

The cost of the investment exceeds the Corporation's underlying share of the net book value of Igasamex USA Ltd. by approximately \$5,200 thousand (2003 - \$5,240 thousand).

The equity interest is held through general partnership and limited partnership units.

4. Share Capital

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. Issued share capital is as follows:

	Shares	2004	2003
		(thousands)	
Share capital, beginning of year	1,074,100.9	\$ 10,741	\$ 3,718
Issued during the year	-	-	7,023
Share capital, end of year	<u>1,074,100.9</u>	<u>\$ 10,741</u>	<u>\$ 10,741</u>

5. Commitments

SaskEnergy Mexican Holdings Ltd., has posted a \$4,008 thousand United States dollar denominated letter of credit in favour of Bank One, N.A., a United States bank. The letter of credit is used as collateral for the Corporation's share of a line of credit Bank One, N.A. has granted to Igasamex Bajio, S. de R.L. de C.V., a wholly owned subsidiary of Integrated Gas Services de Mexico, S. de R.L. de C.V.

Bank One, N.A. may draw upon this letter of credit if Igasamex USA Ltd. defaults under the terms of its loan agreement with Bank One, N.A.



**SASKENERGY NOVA SCOTIA
HOLDINGS LTD.**

***CONSOLIDATED
FINANCIAL STATEMENTS***

December 31, 2004

Auditors' Report

To the Shareholder of SaskEnergy Nova Scotia Holdings Ltd.

We have audited the consolidated statement of financial position of SaskEnergy Nova Scotia Holdings Ltd. as at December 31, 2004 and the consolidated statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
March 10, 2005

SASKENERGY NOVA SCOTIA HOLDINGS LTD.

Consolidated Statement of Financial Position

As at December 31
(thousands of dollars)

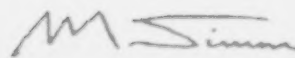
	2004	2003
Assets		
Current assets		
Cash	\$ 403	\$ 355
Accounts receivable	355	311
Inventories of supplies	220	231
Prepaid expenses	30	27
Gas cost variance account	3	-
	<u>1,011</u>	<u>924</u>
Property, plant and equipment (Note 4)	9,048	4,565
Revenue deficiency account (Note 5)	1,059	122
Deferred charges (Note 6)	203	44
	<u>\$ 11,321</u>	<u>\$ 5,655</u>
Liabilities and Shareholder's Equity		
Current liabilities		
Accounts payable	\$ 865	\$ 868
Intercompany accounts payable	63	128
	<u>928</u>	<u>996</u>
Long-term debt (Note 7)	5,580	2,480
	<u>6,508</u>	<u>3,476</u>
Shareholder's equity		
Share capital (Note 8)	4,089	2,029
Retained earnings	724	150
	<u>4,813</u>	<u>2,179</u>
	<u>\$ 11,321</u>	<u>\$ 5,655</u>

Commitments (Note 9)

On behalf of the Board:



Director



Director

SASKENERGY NOVA SCOTIA HOLDINGS LTD.**Consolidated Statement of Earnings and Retained Earnings**

Years ended December 31

(thousands of dollars)

	2004	2003
Revenue		
Revenue deficiency accrual (Note 5)	\$ 937	\$ 122
Allowance for funds used during construction (Note 4)	132	88
Distribution revenue	35	-
Other	78	-
	<u>1,182</u>	<u>210</u>
Expenses		
Operating and maintenance (Note 4)	251	4
Interest (Note 10)	191	45
Amortization of property, plant and equipment	85	-
Amortization of deferred charges	50	-
Corporation capital tax	31	11
	<u>608</u>	<u>60</u>
Earnings from operations before the following	574	150
Commodity sales revenue	61	-
Cost of gas sold	61	-
Commodity sales margin	<u>-</u>	<u>-</u>
Net earnings	574	150
Retained earnings, beginning of year	150	-
Retained earnings, end of year	<u>\$ 724</u>	<u>\$ 150</u>

(See accompanying notes)

SASKENERGY NOVA SCOTIA HOLDINGS LTD.

Consolidated Statement of Cash Flows

Years ended December 31

(thousands of dollars)

	2004	2003
Operating Activities		
Net earnings	\$ 574	\$ 150
Add (deduct) items not requiring an outlay of cash		
Allowance for funds used during construction	(132)	(88)
Amortization of property, plant and equipment	85	-
Amortization of deferred charges	50	-
Increase in revenue deficiency account	(937)	(122)
	(360)	(60)
Net change in non-cash working capital (Note 12)	(107)	427
Cash (used in) provided by operating activities	(467)	367
Investing Activities		
Additions to property, plant, and equipment	(4,436)	(4,477)
Increase in deferred charges	(209)	(44)
Cash used in investing activities	(4,645)	(4,521)
Financing Activities		
Proceeds from long-term debt	3,100	2,480
Proceeds from share capital issue	2,060	2,028
Cash provided by financing activities	5,160	4,508
Increase in cash during the year	48	354
Cash position, beginning of year	355	1
Cash position, end of year	\$ 403	\$ 355

(See accompanying notes)

SaskEnergy Nova Scotia Holdings Ltd.
Notes to the Consolidated Financial Statements
December 31, 2004

1. Status of the Corporation

SaskEnergy Nova Scotia Holdings Ltd. was created on September 13, 2002 under *The Canada Business Corporations Act*. The Corporation is a wholly owned subsidiary of SaskEnergy Incorporated (SEI), a Saskatchewan provincial Crown corporation, and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by its Board of Directors and the management of its parent, SEI.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. The following accounting policies are considered to be significant:

a. Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its 50.1 per cent proportionate share of the accounts of Heritage Gas Limited (Heritage Gas), a joint venture.

b. Regulation

Heritage Gas is engaged in the distribution and sale of natural gas in the Province of Nova Scotia and is regulated by the Nova Scotia Utility and Review Board (NSUARB). The regulations cover such matters as tariffs, rates, construction, operations, financing, and accounting. Heritage Gas's accounting policies conform to generally accepted accounting principles for rate regulated utilities and reflect the policies established from time to time by the NSUARB. Rate regulation creates differences between the manner in which Heritage Gas accounts for transactions or events and how they would be accounted for if Heritage Gas was not subject to rate regulation. The following is a description of the effects of regulation on Heritage Gas as they relate to the Corporation's 50.1 per cent interest:

i. Revenue deficiency account (RDA)

Heritage Gas has approval from the NSUARB to use a Revenue Deficiency Account (RDA). The RDA changes based on the difference between the actual revenue billed and the revenue required to earn the rates of return approved by the NSUARB. In Heritage Gas' customer development stage, it is expected that the actual revenue billed will be less than the revenue required to earn the approved rates of return and therefore an RDA asset will accumulate.

SaskEnergy Nova Scotia Holdings Ltd.
Notes to the Consolidated Financial Statements
December 31, 2004

2. Summary of Significant Accounting Policies (continued)

As the distribution network matures, the actual revenue billed is expected to exceed the revenue required to earn the approved rates of return and, the RDA will be drawn down. The recovery of any residual balance in the RDA at December 31, 2008 is subject to approval by the NSUARB.

The RDA as at December 31, 2004 was \$1,059 thousand (December 31, 2003 - \$122 thousand). The effect of the RDA accumulation was to increase revenue in 2004 by \$937 thousand (2003 - \$122 thousand).

ii. Allowance for funds used during construction (AFUDC)

Heritage Gas capitalizes an imputed carrying cost on assets under construction. The amount capitalized is disclosed on the income statement AFUDC. The calculation method and rate of AFUDC have been approved by the NSUARB.

iii. Revenue recognition

Revenue is recognized when natural gas is delivered to customers.

iv. Operating expenses

The NSUARB has approved the capitalization of operating and maintenance expenses. If Heritage Gas was not subject to rate regulation, certain of these amounts would not be capitalized.

v. Income and other taxes

Heritage Gas follows the taxes payable method of accounting for income taxes. Provision is only made for those income taxes currently payable and no future tax is recorded on timing differences between accounting and taxable income.

vi. Gas cost variance account

The gas cost variance account (GCVA) is the difference between the cost to purchase natural gas and the current rate charged to customers and its balance is recovered from or refunded to customers through adjustments to future rates.

SaskEnergy Nova Scotia Holdings Ltd.
Notes to the Consolidated Financial Statements
December 31, 2004

2. Summary of Significant Accounting Policies (continued)

c. Inventories of supplies

Inventories of supplies consists primarily of pipe and general materials for construction and maintenance and is recorded at average cost.

d. Property, plant and equipment

Property, plant and equipment is recorded at cost and includes all direct costs plus capitalized expenses and an AFUDC.

The capitalized expenses and AFUDC are capitalized and amortized at rates authorized by the NSUARB.

Amortization of property, plant and equipment is calculated on a straight-line basis by applying a fixed rate to the cost at the previous year end balance as approved by the NSUARB.

Franchise acquisition	4.00%
Mains and services	2.10 – 2.70%
Regulating and metering stations	2.56 – 4.18%
Meters	3.51%
Computer systems	20.00 – 33.00%
Vehicles and equipment	5.00 – 16.38%
Tools and furniture	5.00%
Leaseholds	Over the term of the lease

3. Revolving Demand Facility

The Corporation, through its interest in Heritage Gas, has a \$500 thousand (2003 – nil) revolving demand facility with a Canadian chartered bank which is secured by a General Security Agreement over all personal property of Heritage Gas.

SaskEnergy Nova Scotia Holdings Ltd.
Notes to the Consolidated Financial Statements
December 31, 2004

4. Property, Plant and Equipment

	2004			2003		
	(thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Franchise acquisition costs	\$ 1,668	\$ 67	\$ 1,601	\$ 1,668	\$ -	\$ 1,668
Mains and services	6,651	-	6,651	2,395	-	2,395
Regulating and metering stations	352	-	352	337	-	337
Meters	145	-	145	7	-	7
Computer systems	135	5	130	19	-	19
Vehicles and equipment	56	8	48	45	-	45
Tools, furniture and leaseholds	126	5	121	94	-	94
	<u>\$ 9,133</u>	<u>\$ 85</u>	<u>\$ 9,048</u>	<u>\$ 4,565</u>	<u>\$ -</u>	<u>\$ 4,565</u>

Franchise acquisition costs represent payments made for costs incurred to acquire the franchise.

The Corporation has recorded \$132 thousand (2003 - \$88 thousand) as an allowance for funds used during construction.

The Corporation has capitalized \$1,957 thousand (2003 - \$907 thousand) of operating and maintenance expenses during the year. The effect of capitalizing operating and maintenance expenses was to decrease expenses in 2004 by \$1,957 thousand (2003 - \$907 thousand).

5. Revenue Deficiency Account

	2004	2003
	(thousands)	
Balance, beginning of the year	\$ 122	\$ -
Accrued during the year	937	122
Balance, end of year	<u>\$ 1,059</u>	<u>\$ 122</u>

SaskEnergy Nova Scotia Holdings Ltd.
Notes to the Consolidated Financial Statements
December 31, 2004

6. Deferred Charges

Deferred charges include third party costs related to regulatory proceedings. These costs are being amortized on a straight-line basis over a five-year period which commenced in 2004.

	<u>2004</u>	<u>2003</u>
	(thousands)	
Deferred charges	\$ 253	\$ 44
Accumulated amortization	(50)	-
	<u>\$ 203</u>	<u>\$ 44</u>

7. Long-Term Debt

	<u>2004</u>		<u>2003</u>	
	Principal Outstanding (thousands)	Fixed Interest Rate (per cent)	Principal Outstanding (thousands)	Fixed Interest Rate (per cent)
Note payable to parent	<u>\$ 5,580</u>	5.25	<u>\$ 2,480</u>	5.25

8. Share Capital

Authorized share capital consists of an unlimited number of class A voting common shares without nominal or par value.

	<u>2004</u>		<u>2003</u>	
	Shares	Amount (thousands)	Shares	Amount (thousands)
Share capital, beginning of year	2,029,051	\$ 2,029	502	\$ 1
Issued during the year	<u>2,060,112</u>	<u>2,060</u>	<u>2,028,549</u>	<u>2,028</u>
Share capital, end of year	<u>4,089,163</u>	<u>\$ 4,089</u>	<u>2,029,051</u>	<u>\$ 2,029</u>

SaskEnergy Nova Scotia Holdings Ltd.
Notes to the Consolidated Financial Statements
December 31, 2004

9. Commitments

Future minimum lease payments under operating leases for office space and office equipment are estimated as follows:

	(thousands)
2005	\$ 96
2006	93
2007	4

10. Interest Expense

Interest expense was as follows:

	2004	2003
	(thousands)	
Interest on long-term debt	\$ 197	\$ 47
Interest income on cash balance	(6)	(2)
	\$ 191	\$ 45

There was \$222 thousand (2003 – nil) in cash interest payments during the year.

11. Financial Instruments

The fair value of the Corporation's financial instruments are listed below:

	2004		2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(thousands)			
Long-term debt	\$ 5,580	\$ 5,900	\$ 2,480	\$ 2,550

The carrying values of other financial instruments (accounts receivable, accounts payable and intercompany accounts payable) approximate fair value due to their relatively short term nature.

SaskEnergy Nova Scotia Holdings Ltd.
Notes to the Consolidated Financial Statements
December 31, 2004

12. Net Change in Non-Cash Working Capital

The net change in non-cash working capital related to operations was as follows:

	<u>2004</u>	<u>2003</u>
	(thousands)	
Accounts receivable	\$ (44)	\$ (311)
Inventories of supplies	11	(231)
Prepaid expenses	(3)	(27)
Gas cost variance account	(3)	-
Accounts payable	(3)	868
Intercompany accounts payable	(65)	128
	<u>\$ (107)</u>	<u>\$ 427</u>

13. Related Party Transactions

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

Transactions with SEI and other shareholders of Heritage Gas, and amounts outstanding at year end, are as follows:

	<u>2004</u>	<u>2003</u>
	(thousands)	
Operating and maintenance expenses	\$ 168	\$ -
Interest expense on note payable to parent	197	47
Accounts payable	30	116
Intercompany accounts payable	63	128

SaskEnergy Nova Scotia Holdings Ltd.
Notes to the Consolidated Financial Statements
December 31, 2004

14. Joint Venture Interest

The Corporation's 50.1 per cent proportionate interest in the Heritage Gas Limited joint venture is as follows:

a. Consolidated statement of financial position

	2004	2003
	(thousands)	
Current assets	\$ 831	\$ 845
Property, plant and equipment	9,048	4,565
Regulatory receivable	1,059	122
Deferred charges	203	44
Current liabilities	(902)	(945)
Net investment	<u>\$ 10,239</u>	<u>\$ 4,631</u>

b. Consolidated statement of earnings

	2004	2003
	(thousands)	
Revenue	\$ 1,182	\$ 210
Expenses	(407)	(9)
Net earnings	<u>\$ 775</u>	<u>\$ 201</u>

c. Consolidated statement of cash flows

	2004	2003
	(thousands)	
Cash (used in) provided by operating activities	\$ (568)	\$ 376
Cash (used in) investing activities	(4,645)	(4,609)
Decrease in cash	<u>\$ (5,213)</u>	<u>\$ (4,233)</u>

15. Comparative Figures

Certain of the prior year amounts have been reclassified to conform to the current year's presentation.



HERITAGE GAS LIMITED

FINANCIAL STATEMENTS

December 31, 2004

Deloitte

Deloitte & Touche LLP
Purdy's Wharf Tower II
1500 - 1969 Upper Water St.,
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Canada

Tel: 902-496-1815
Fax: 902-423-5820
www.deloitte.ca

Auditors' Report

To the Shareholders of Heritage Gas Limited

We have audited the statement of financial position of Heritage Gas Limited as at December 31, 2004 and the statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of Heritage Gas Limited's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of Heritage Gas Limited as at December 31, 2004, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Halifax, Nova Scotia
March 10, 2005

HERITAGE GAS LIMITED

Statements of Financial Position

As at December 31

(thousands of dollars)

	2004	2003
Assets		
Current		
Cash	\$ 446	\$ 552
Accounts receivable	707	620
Inventory of supplies	440	460
Prepaid expenses	60	55
Gas cost variance account	6	-
	<u>1,659</u>	<u>1,687</u>
Property, plant and equipment (Note 4)	18,060	9,114
Revenue deficiency account	2,113	243
Deferred charges (Note 5)	404	88
	<u>\$ 22,236</u>	<u>\$ 11,132</u>
Liabilities and Shareholders' Equity		
Accounts payable	\$ 1,799	\$ 1,887
Shareholders' loans (Note 6)	<u>11,138</u>	<u>4,950</u>
Shareholders' equity		
Share capital (Note 7)	8,162	4,050
Retained earnings	<u>1,137</u>	<u>245</u>
	<u>9,299</u>	<u>4,295</u>
	<u>\$ 22,236</u>	<u>\$ 11,132</u>
Commitments (Note 8)		

On behalf of the Shareholders:



Director



Director

HERITAGE GAS LIMITED

Statements of Earnings and Retained Earnings

For years ended December 31

(thousands of dollars)

	2004	2003
Revenue		
Distribution	\$ 69	\$ -
Gas cost recovery	121	-
Allowance for funds used during construction (Note 4)	264	175
Revenue deficiency accrual	1,870	243
Other	159	-
	<u>2,483</u>	<u>418</u>
Expenses		
Cost of gas sold	121	-
Operating and maintenance (Note 4)	493	-
Amortization of deferred charges	101	-
Amortization of property, plant and equipment	170	-
Corporate capital tax	63	21
Interest (Note 9)	643	152
	<u>1,591</u>	<u>173</u>
Net earnings	892	245
Retained earnings, beginning of year	245	-
Retained earnings, end of year	<u>\$ 1,137</u>	<u>\$ 245</u>

HERITAGE GAS LIMITED

Statements of Cash Flows

For years ended December 31

(thousands of dollars)

	2004	2003
Cash from Operations		
Net earnings	\$ 892	\$ 245
Add (deduct) items not affecting cash:		
Allowance for funds used during construction (Note 4)	(264)	(175)
Amortization of deferred charges	101	-
Amortization of property, plant and equipment	170	-
Revenue deficiency accrual	(1,870)	(243)
	<u>(971)</u>	<u>(173)</u>
Net change in non-cash working capital (Note 10)	<u>(166)</u>	<u>752</u>
Cash (used in) provided by operating activities	<u>(1,137)</u>	<u>579</u>
Investing Activities		
Additions to property, plant, and equipment	(8,852)	(8,939)
Increase in deferred charges	<u>(417)</u>	<u>(88)</u>
Cash used in investing activities	<u>(9,269)</u>	<u>(9,027)</u>
Financing Activities		
Proceeds provided by shareholders' loans	6,188	4,950
Proceeds provided by issuance of share capital	<u>4,112</u>	<u>4,049</u>
Cash provided by financing activities	<u>10,300</u>	<u>8,999</u>
(Decrease) increase in cash during the year	<u>(106)</u>	<u>551</u>
Cash position, beginning of year	<u>552</u>	<u>1</u>
Cash position, end of year	<u>\$ 446</u>	<u>\$ 552</u>

Heritage Gas Limited
Notes to the Financial Statements
December 31, 2004

(in thousands of dollars unless otherwise stated)

1. Status of the Corporation

Heritage Gas Limited (the Corporation) was incorporated on August 13, 2002 under *The Canada Business Corporations Act*.

The shareholders and their respective ownership interests are as follows:

SaskEnergy Nova Scotia Holdings Ltd.	50.1%
Silgascorp Inc.	25.0%
AltaGas Utility Holdings (Nova Scotia) Inc.	24.9%

On August 16, 2002, the Corporation applied for a full regulation class franchise for a specific area in Nova Scotia pursuant to *The Gas Distribution Act (Nova Scotia)*. The Nova Scotia Utility and Review Board (NSUARB) awarded the Corporation the franchise to distribute natural gas to all or part of six counties in the Province of Nova Scotia on February 7, 2003 which the Corporation accepted on June 3, 2003. The franchise term is 25 years. The NSUARB approved a debt to equity ratio of 55:45; a cost of debt of 8.75%; and a rate of return on equity of 13.00%. Since the date of franchise acceptance, the Corporation has acquired and constructed natural gas distribution facilities, obtained a license to operate from the NSUARB on December 19, 2003 and on that date activated its natural gas distribution network.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis since incorporation. The following accounting policies are considered to be significant:

a. Regulation

The Corporation is engaged in the distribution of natural gas in Nova Scotia and is regulated by the NSUARB. The regulations cover such matters as tariffs, rates, construction, operations, financing, and accounting. The Corporation's accounting policies conform to generally accepted accounting principles in the utility industry and reflect the policies established from time to time by the NSUARB. Rate regulation creates differences between the manner in which the Corporation accounts for transactions or events and how they would be accounted for if the Corporation was not subject to rate regulation. As a result of rate regulation, the Corporation has been provided with the approval to utilize a revenue deficiency account (Note 2e), an allowance for funds used under construction (Note 2i), a gas cost variance account (Note 2f) and is able to capitalize operating and maintenance expenses (Note 2g).

Heritage Gas Limited

Notes to the Financial Statements

December 31, 2004

(in thousands of dollars unless otherwise stated)

2. Summary of Significant Accounting Policies (continued)

b. Inventory of supplies

Inventory of supplies consists primarily of pipe and general materials for construction and maintenance and is recorded at average cost.

c. Property, plant and equipment

Property, plant and equipment is recorded at cost and includes all direct costs plus capitalized expenses (Note 2g) and an allowance for funds used during construction (AFUDC) (Note 2i).

The capitalized expenses and AFUDC are capitalized and amortized at rates authorized by the NSUARB.

Amortization of property, plant and equipment is calculated on a straight-line basis by applying a fixed rate to the cost at the previous year end balance as approved by the NSUARB.

Franchise acquisition	4.00%
Mains and services	2.10 – 2.70%
Regulating and metering stations	2.56 – 4.18%
Meters	3.51%
Computer systems	20.00 – 33.00%
Vehicles and equipment	5.00 – 16.38%
Tools and furniture	5.00%
Leaseholds	Over the term of the lease

d. Revenue recognition

Revenue is recognized when natural gas is delivered to customers.

e. Revenue deficiency account

The Corporation has approval from the NSUARB to use a Revenue Deficiency Account (RDA). The RDA changes based on the difference between the actual revenue billed and the revenue required to earn the rates of return approved by the NSUARB. In the Corporation's customer development stage, it is expected that the actual revenue billed will be less than the revenue required to earn the approved rates of return and therefore an RDA asset will accumulate.

Heritage Gas Limited

Notes to the Financial Statements

December 31, 2004

(in thousands of dollars unless otherwise stated)

2. Summary of Significant Accounting Policies (continued)

As the distribution network matures, the actual revenue billed is expected to exceed the revenue required to earn the approved rates of return and, the RDA will be drawn down. The recovery of any residual balance in the RDA at December 31, 2008 is subject to approval by the NSUARB.

The RDA as at December 31, 2004 was \$2,113 thousand (December 31, 2003 - \$243 thousand). The effect of the RDA accumulation was to increase revenue in 2004 by \$1,870 thousand (2003 - \$243 thousand).

f. Gas cost variance account

The gas cost variance account (GCVA) is the difference between the cost to purchase natural gas and the current rate charged to customers and its balance is recovered from or refunded to customers through adjustments to future rates.

g. Capitalized expenses

The NSUARB has approved the capitalization of operating and maintenance expenses. If the Corporation was not subject to rate regulation, certain of these amounts would not be capitalized. The following table identifies the rates at which operating expenses were capitalized:

	<u>2004</u>	<u>2003</u>
Executive, operations, human resources, finance and administration, and overhead	75%	100%
Marketing, engineering, construction, and regulatory and public affairs	100%	100%

h. Income and other taxes

The Corporation follows the taxes payable method of accounting for income taxes. Provision is only made for those income taxes currently payable and no future tax is recorded on timing differences between accounting and taxable income.

i. Allowance for funds used during construction

The Corporation capitalizes an imputed carrying cost on assets under construction. The amount capitalized is disclosed on the income statement as allowance for funds used during construction (AFUDC). The calculation method and rate of AFUDC have been approved by the NSUARB.

j. Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the reported amounts of revenue and expenses during the period. By their nature, these estimates are subject to measurement uncertainty and changes in estimates may impact the financial statements of future periods.

Heritage Gas Limited
Notes to the Financial Statements
December 31, 2004

(in thousands of dollars unless otherwise stated)

3. Revolving Demand Facility

The Corporation has a \$1,000 thousand (2003 - nil) revolving demand facility with a Canadian chartered bank which is secured by a General Security Agreement over all personal property of the Corporation.

4. Property, Plant and Equipment

	2004			2003		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Franchise acquisition	\$ 3,329	\$ 134	\$ 3,195	\$ 3,329	\$ -	\$ 3,329
Mains and services	13,275	-	13,275	4,782	-	4,782
Regulating and metering stations	702	-	702	672	-	672
Meters	287	-	287	15	-	15
Computer systems	274	10	264	38	-	38
Vehicles and equipment	111	15	96	89	-	89
Tools, furniture and leaseholds	252	11	241	189	-	189
	<u>\$ 18,230</u>	<u>\$ 170</u>	<u>\$ 18,060</u>	<u>\$ 9,114</u>	<u>\$ -</u>	<u>\$ 9,114</u>

The Corporation has recorded \$264 thousand (2003 - \$175 thousand) as an allowance for funds used during construction.

The Corporation has capitalized \$3,902 thousand (2003 - \$1,811 thousand) of operating and maintenance expenses during the year. The effect of capitalizing operating expenses was to decrease expenses in 2004 by \$3,902 thousand (2003 - \$1,811 thousand).

5. Deferred Charges

Deferred charges include third party costs incurred by the Corporation related to regulatory proceedings. These costs are being amortized on a straight-line basis over a five-year period which commenced in 2004 as approved by the NSUARB.

	2004	2003
Deferred charges	\$ 505	\$ 88
Accumulated amortization	(101)	-
	<u>\$ 404</u>	<u>\$ 88</u>

Heritage Gas Limited
Notes to the Financial Statements
December 31, 2004
(in thousands of dollars unless otherwise stated)

6. Shareholders' Loans

Shareholders' loans are unsecured and carry an NSUARB approved interest rate of 8.75% with interest paid quarterly. All loans are to be repaid in full on December 31, 2009.

	2004	2003
SaskEnergy Nova Scotia Holdings Ltd.	\$ 5,580	\$ 2,480
Silgascorp Inc.	2,785	1,237
AltaGas Utility Holdings (Nova Scotia) Inc.	2,773	1,233
	<u>\$ 11,138</u>	<u>\$ 4,950</u>

Interest paid during 2004 on shareholders' loans was \$655 thousand (2003 - \$158 thousand).

7. Share Capital

Authorized: Unlimited number of common shares without nominal or par value.
Issued and outstanding:

	Shares	Amount
December 31, 2002	1	\$ 1
Issued during the year for cash	4,049	4,049
December 31, 2003	4,050	4,050
Issued during the year for cash	4,112	4,112
December 31, 2004	<u>8,162</u>	<u>\$ 8,162</u>

8. Commitments

Future minimum lease payments for the next five years under operating leases for office space and office equipment are estimated as follows (in thousands):

2005	\$ 193
2006	186
2007	8
2008	-
2009	-
	<u>\$ 387</u>

Heritage Gas Limited
Notes to the Financial Statements
December 31, 2004

(in thousands of dollars unless otherwise stated)

9. Interest Expense

	<u>2004</u>	<u>2003</u>
Interest expense on shareholders' loans	\$ 655	\$ 158
Interest and bank charges	<u>(12)</u>	<u>(6)</u>
	<u>\$ 643</u>	<u>\$ 152</u>

10. Net Change in Non-Cash Working Capital

	<u>2004</u>	<u>2003</u>
Trade and other receivables	\$ (87)	\$ (620)
Inventory of supplies	20	(460)
Prepaid expenses	(5)	(55)
Accounts payable	(88)	1,887
Gas cost variance account	<u>(6)</u>	<u>-</u>
	<u>\$ (166)</u>	<u>\$ 752</u>

11. Financial Instruments

The carrying values of the Corporation's financial instruments (trade and other receivables, accounts payable and shareholders' loans) approximate fair value.

12. Related Party Transactions

Related party transactions with the Corporation's shareholders are recorded at their exchange amount which is considered to be at fair value. Related party transactions and balances for the year-ending December 31, 2004 were as follows:

	<u>2004</u>	<u>2003</u>
Operating and maintenance expenses	\$ 336	\$ -
Interest expense	<u>655</u>	<u>158</u>
Accounts payable	<u>140</u>	<u>393</u>

13. Comparative Figures

Certain comparative figures have been reclassified to conform to the current financial statement presentation.

